
Contents

<i>List of figures</i>	vii
<i>List of tables</i>	viii
<i>List of abbreviations</i>	ix
<i>List of the editors and the contributors</i>	xi

Part I Introduction

1 Trends and tensions: an overview <i>Susan Corby, Steve Palmer, and Esmond Lindop</i>	3
2 Can pay be strategic? <i>Jonathan Trevor</i>	21
3 Employee voice in pay determination <i>Esmond Lindop</i>	41

Part II Pay issues

4 Paying for progression – ever onwards and upwards? <i>Steve Palmer</i>	61
5 Local pay <i>Bob Elliott</i>	82
6 Performance pay and collective bargaining: a complex relationship <i>Paul Marginson</i>	102
7 Regulating pay: the UK's national minimum wage <i>James Arrowsmith</i>	120

PROOF

- 8 Pay equity: gender and age 139
Susan Corby
- 9 Executive rewards – ‘don’t you just give them loads of money?’ 157
Jon Dymond and Helen Murlis

Part III Benefits issues

- 10 The pensions revolution 183
Sue Field, Christian Olsen, and Richard Williams
- 11 Flexible benefits: shaping the way ahead? 206
Angela Wright
- 12 Employee share ownership in Europe 224
Andrew Pendleton

Part IV Conclusions

- 13 Drawing the threads together 247
Susan Corby and Esmond Lindop
- Index* 257

PROOF

Part I

Introduction

PROOF

1

Trends and tensions: an overview

Susan Corby, Steve Palmer, and Esmond Lindop

Trends

From salary administration to reward strategy

In 1978, recruitment consultants MSL advertised on behalf of a client for a ‘Manager, Salary Administration’. The role was identified as incorporating ‘a wide range of personnel activities’ including salary and wage administration, job evaluation, liaison with line managers and trade unions, and remuneration policy formation. The successful candidate needed ‘a salary administration background’ (Institute of Personnel Management, 1978). The emphasis on administration is revealing. Indeed, the key texts for budding pay specialists at the time took *Salary Administration* as their titles (see, for instance, Armstrong and Murlis 1980; Rock, 1984). Not only that, but jobs purely in the pay field were in any event few and far between. A search through advertisements in the monthly *Digest* of the then Institute of Personnel Management (IPM) reveals considerable emphasis on general personnel, industrial relations or training and development jobs, with only a smattering of posts in salary administration and a few advertisers looking for specialists to run a job-evaluation scheme.

Compare this with a recent advertisement placed by Macmillan Davies Hodes in *People Management* in June 2007. Here the client considered the post of ‘Compensation and Benefits Manager’ as ‘essential’ for the development and transformation of its reward strategy. The incumbent would take ‘full responsibility’ for designing and implementing the strategy, including its interpretation and development, and would need ‘a broad background in reward at strategic and operational level’ (People Management, 2007, p. 61).

Clearly, the role of pay specialist represented by these advertisements has been transformed over the intervening years, in terms of both content and its associated expertise. Pay has moved from a largely administrative role to a much-more strategic one, with an emphasis on acquiring and developing talent and delivering broader business objectives. Moreover, the significance attached to reward management within organisations has greatly increased. It has simultaneously become both more the province of the strategic expert and a key responsibility of the line manager (a theme to which we return below). Writing in 1989, McBeath and Rands state that ‘in little more than two decades, salary administration has developed from a relatively primitive activity carried out by specialists in progressive organisations to a universal process’ (McBeath and Rands, 1989, p. vi).

The language of the advertisements also points to an intriguing change in the job titles given to pay specialists. These have gone through something of a cycle from salary administrator to remuneration specialist, compensation specialist, and reward specialist. Whilst the latter titles can be used interchangeably (the advertisement above, for example, uses both ‘reward’ and ‘compensation’), they are not purely semantic.

The *Compact Oxford English Dictionary* (COED, 2007) refers to *pay* as ‘money paid for work’, a rather passive response based solely on meeting the bill for a certain activity. *Compensation* on the other hand, carries the connotation of recompense for an employee’s lost opportunity of doing something else, whether work for another employer, development, or recreation. The *COED* notes its use to mean salary or wages, but considers this chiefly a North American definition. Finally, *reward* comes down to something given ‘in recognition of service, effort or achievement’. It looks beyond employees’ output to include their input. Reward would also include benefits alongside pay to reflect the entire package available to employees. (There is no clear trend in the use of titles in the pay field, although reward has probably become more popular, and pay and compensation less so, at least on this side of the Atlantic ocean. Perhaps revealing is the decision of the Chartered Institute of Personnel and Development (CIPD) to change the name of its forum for pay specialists from its original Compensation Forum to its current Reward Forum.)

This changing emphasis has also gone hand-in-hand with an upward shift in the relative pay of salary specialists themselves. In 1977, the median basic salary of managers in salary administration was £7,811 per annum (Computer Economics, 1977). The most recent survey, covering 2006–2007, puts the median basic pay for compensation and benefit managers at £47,700, and the average bonus at £6,210 (Croner Reward, 2007). This represents a rate of earnings increase of 570 per cent over 30 years. Compare this to the rate of increase in the economy as a whole where the median earnings of men and women have risen between 420 per cent and 440 per cent respectively over the same period (Department of Employment, 1977; Office for National Statistics, 2006). Reporting on its 2006–2007 personnel salary survey, Croner Reward notes that it ‘shows again Compensation and Benefits Specialists are the highest paid specialism, receiving as much as 21 per cent more than the average

salary for a senior manager' – figures, incidentally, that are even higher for those with an international dimension to their jobs (Croner Reward, 2007, p. xv).

A recent analysis from Incomes Data Services (IDS) supports the contention. 'Businesses and organisations... are finding it difficult to recruit compensation and benefits specialists at all levels', IDS wrote in 2005. '[M]oreover, high demand is likely to continue into the near future... with the prospect that the job market will become even tighter' (Incomes Data Services 2005a, p. 17). Why has there been such a change in the profile of the pay specialism resulting in a strong sellers' market today for people with these skills?

Incomes Data Services offers at least part of the answer, noting that reward strategies are becoming more sophisticated as they seek specifically to influence employee attitudes, behaviours, and performance. Another factor is the internationalisation of business, which brings with it a demand for knowledge and skills extending across national boundaries. Complications around taxation of pay and benefits, and the need to be comfortable with large pay databases, are also skills in demand as pay becomes both more individualised and market driven.

The changing context of reward

If the role of the salary administrator was more circumscribed in the past, we must take account of the context of the times. Pay specialists in the 1970s operated in a framework far removed from that of today: for example, for seven years of the decade there had been incomes policies of varying intensity which severely restricted the scope for innovation in pay policy (Chater et al., 1981). Alongside that, management freedoms of manoeuvre were also limited by employee relations structures. Well over 50 per cent of the workforce had their pay and conditions determined by collective bargaining, trade union density was high (as was trade union militancy) and underpinned in many sectors by agreements making membership a condition of employment; inflation ran at figures unrecognisable today, peaking at over 25 per cent in 1975. A third of the workforce worked in manufacturing, and for some income from piece-work systems accounted for 40 per cent or more of earnings (Cannell and Wood, 1992). White-collar workers in the public sector and many in the private sector were covered by incremental payment systems with automatic pay progression based on service (Office of Manpower Economics, 1973). Benefit provision was rudimentary, with most benefits limited to white collar and/or senior staff (Reid and Robertson, 1965). In addition, there was comparatively little pay and benefits data available about practice in other organisations (Incomes Data Services, 1966).

The move away from 'administration' to 'strategy' undoubtedly picked up following the election of a Conservative government in 1979 wedded to a monetarist economic policy to drive down inflation, alongside a neoclassical economic philosophy based on freeing up markets – product as well as labour – to greater competition. The government's approach included the weakening of trade union power, the reduction

of inflation and the abolition of minimum wage provisions. Trade union power was weakened by a raft of legislation, for instance ending the closed shop, restricting industrial action, and abolishing trade union rights to claim recognition from employers.

The union base was further eroded by privatisations, which moved highly unionised public sector organisations into the private sector, and contracting out of some public service activities, which saw typically lower paid ancillary posts moved from the public sector to private sector suppliers. Post-1980 inflation was indeed driven down (although not initially to the levels of more recent years) accompanied by recession that saw unemployment rise to three million, with the brunt borne particularly by the up-to-then highly unionised manufacturing sector (Kessler and Bayliss, 1998). As to minimum wage setting, this essentially ended when Wages Councils were abolished in 1993 (see Chapter 7).

At the same time, the composition of the workforce changed. Manufacturing employment, where unionisation had traditionally been high, almost halved from 1979 to 1996, whilst service sector jobs, where unions found it often difficult to organise and where unionisation had anyway traditionally been weak, grew in number (Kessler and Bayliss, 1998, p. 45). At the risk of caricature, if the typical trade unionist of the 1970s was a man working full time in manufacturing, today the typical trade union member is a woman, quite possibly a part-timer, employed in the public services (see Grainger and Crowther, 2007).

In the face of these combined pressures, trade union membership fell significantly. According to the annual reports of the Certification Officer, it fell from 13.2 million in 1979, some 53 per cent of the workforce, to ten million in 1989, to 7.6 million today, about a quarter of the workforce. The reduction in the influence of trade unions within most organisations where they are still recognised has been almost as precipitate (Brown et al., 1998). As we will see in Chapter 3, this rapid decline in traditional collective bargaining arrangements and in the role of trade unions as a channel of communication over pay has led to the development of other processes aimed at more direct engagement with employees.

Union decline has freed up the scope for management discretion over a range of personnel practices including reward practice. We are of the view that changes of this kind have been a necessary condition for development of the new practices of recent years, but the reduction in trade union influence has not been the driver of change. A series of other factors have played that role, most notably the growing competitive pressures on the private sector caused both by reform of domestic markets and international competition, topics too large to explore in detail here. What no observer can doubt is that the pressure on business generally to perform has focused minds on the acquisition and retention of talent at the most senior levels, and on how key employees might best be rewarded to align their interests with those of their employers (see Roberts (2001) for further discussion).

Therefore, since the early 1980s both the pressures and the opportunities have been there for organisations to use pay as a tool to deliver their objectives. The questions now centre on the shape that the wished-for-pay strategies should take.

The 'new pay' paradigm

The answer to these questions seemed to lie in the 'new pay' paradigm emerging from the United States of America (USA) (see, for instance, Lawler (1990) and Schuster and Zingheim (1992)). This paradigm was transported to the United Kingdom by multinational companies and cross-border management consultancies.

The key to new pay, its proponents argued, lay in moving away from the certainties of the past – such as job evaluation, rigid grading structures, service-based progression, annual cost of living adjustments, and paternalistic benefit packages – to pay systems focussed on the individual's market worth, performance, and flexibility. It is hard to imagine now what a revolution in thinking this turned out to be. It involved a fresh mindset, moving from pay for inputs – turn up and you'll get paid, turn up for several years you'll get paid more – to pay for outputs – turn up and perform to a satisfactory standard and you'll get paid, turn up and perform to a highly satisfactory standard and you'll get paid more. It has subsequently developed beyond rewarding *what* people do in their jobs to rewarding *how* people do their jobs, with jobs now being described in terms of the expected competencies and behaviours required to carry them out successfully.

One objective of the new pay agenda is therefore the individualisation of reward packages, an objective that fits with a wider social decline in collectivism. Partly this centres on recognizing individual contribution and skills, but other influences, particularly in the area of benefits, are more to do with giving individuals choice and at the same time enabling organisations to target and/or reduce their expenditure on benefits (see Chapters 10 and 11).

While the drive for a 'new pay' agenda certainly caught the zeitgeist, it has not been free from criticism. For instance, performance related pay awards have been criticised as nothing more than 'inflation in drag' (Incomes Data Services, 2005b) and conclusive evidence that incentive pay correlates with performance remains remarkably hard to find.

Moreover, new pay has not been universally applied across organisations. According to the Workplace Employment Relations Survey 2004, only two-fifths of workplaces had performance-related pay schemes for some employees (Kersley et al., 2006). Furthermore, research carried out by the Office of Manpower Economics and the Chartered Institute of Personnel and Development (CIPD, 2006) showed marked differences between the public and private sectors in respect of pay progression systems, with the former still very much reliant on service as the determinant. Indeed, the difference in pay practice between the public and private sectors will frequently emerge in the ensuing chapters, but there are also differences in pay approaches within sectors by size of organisation and by occupation (CIPD, 2007).

As to other aspects of new pay, there is some evidence of 'rowing back'. For example, broad banded pay structures appear more and more to represent broad graded structures or even *de facto* traditional salary structures, while reports of the death of

job evaluation seem premature. It is alive and kicking in the public sector, driven in large part by concern about equal pay for work of equal value. There has been some pick up in use in the private sector too, though it tends to be less rigidly applied and is often used primarily to aid market comparisons (CIPD, 2007).

The role of line managers

In practice, things are a little more structured and centralised than might have been thought given the hype around ‘new pay’. One example of this is the interrelationship between the pay specialist and other managers. The McBeath’s and Rands’s quotation referred to above continues ‘salary administration has developed [into] a universal process, *participated in and operated as much by line managers as by remuneration specialists and other personnel staff*’ (emphasis added; McBeath and Rands 1989, p. vi). A decade later Brown and Armstrong asserted:

Reward is no longer an isolated function; it is part of the strategic business process. This contrasts with the traditional ‘salary administration’ approach in which pay specialists lived an isolated life as technical designers, running bureaucratic systems and dealing on a day-to-day or annual pay review basis with the immediate job grading or pay level issues.... The tendency now is to devolve pay decisions to line managers as part of a broader policy of empowerment and decentralisation of decision-making and responsibility within an organisation. (Brown and Armstrong, 2001, pp. 9, 15)

How much do these views shape up with reality? One could conclude that if pay specialists had truly empowered other managers to take pay decisions, and had equipped them with the skills to do so, they would not perhaps be able to command such a pay premium in the market. Survey evidence suggests that the specialists themselves do not consider that pay literacy has moved much beyond the reward department. Thus in its 2006 survey, the CIPD found that respondent HR managers cited line managers ‘as a major inhibitor to the successful implementation of a reward strategy’. The only significant responsibility line managers had was over training, development, and flexible working. Not only were line managers not trusted to make pay decisions, they were also not trusted to communicate the rationale behind reward strategies (CIPD, 2006).

The CIPD concluded at the time that organisations considered line managers to be the biggest barriers to turning the rhetoric of reward strategies into reality, as line managers were not deemed by HR managers to have either the appropriate skills or abilities. This in turn means pay decision-making and communication are not delegated, training not given, and a vicious circle is created.

This perception was researched in greater detail by Purcell and Hutchinson, who collected the views of line managers themselves. In the context of financial rewards, they noted the importance of line managers in setting and explaining standards of performance and behaviours required, the aims of reward schemes, carrying

out assessments, and communicating and defending judgements. However, line managers told them that they

- found it difficult to differentiate between employees,
- lacked ownership of outcomes,
- found it time-consuming and bureaucratic (especially when most schemes use forced distributions and the vast majority of staff get average performance), and
- lacked training/skills in appraisals which led to a lack of scheme transparency and employee concerns around bias in the results.

The authors concluded:

[I]n spite of the evidence of line managers' increasing involvement in people management, the role of the HR function in the design of reward policies and practices that are delivered by line managers, monitoring and managing the effectiveness of practice delivery and providing support has been largely ignored. This is surprising, given that it is reported that HR professionals have concerns about line manager competence in many aspects of people management, including reward. (Purcell and Hutchinson, 2007, p. 11)

The CIPD has summed up the situation succinctly:, 'one issue that has been a constant refrain for the past number of years is concerns over front-line managers'; pay professionals do not believe that they have the skills, attitudes, and knowledge to manage performance-based rewards. However, what front-line managers themselves have problems with 'is that the performance management and reward process is often developed in splendid isolation by the HR department ... [and] the process of rewarding performance is something that is "done to" rather than "done with" line managers' (CIPD, 2007, pp. 35–36). If that is the view of line managers, what must it be like for the staff who report to them and are the ultimate recipients of organisational pay strategies?

Clearly, in many areas there remain limits to the individualisation of reward, with central control still very much alive. Ultimately, line manager's discretion over pay is circumscribed. There is much less to individualisation and targeting than meets the eye.

Tensions

The tensions between line managers on the one hand and reward specialists on the other, discussed above, are just one example of the conflicting pressures and personal tensions around the management of pay today. Other pressures and tensions at a personal level are between employees (and their representatives) and the employer. In addition, there are tensions at a theoretical level.

These tensions stem from the fact that reward policies and practices have a number of sometimes-conflicting functions. At its simplest, for employers, pay is a cost of

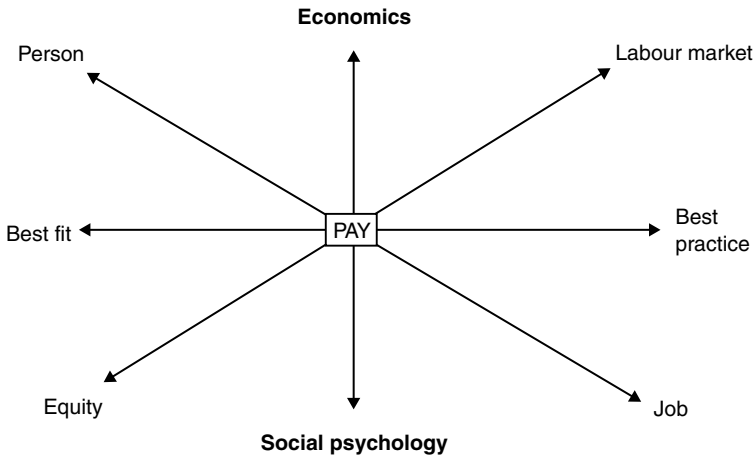


Figure 1.1 Tensions in pay

production, a signal to recruit and retain staff, and a tool for motivating staff. For employees, it is their main, and often only, source of livelihood and a reflection of their social identity. Thus, the level and form of pay and benefits are the outcome of implicit or explicit distributional conflict between employers and workers reflecting the balance of power and custom and practice and this conflict is institutionalised where there is employer/union bargaining (Grimshaw and Rubery, 2007). These tensions are encapsulated in Figure 1.1, whose resolution may vary by organisation, may change over time and location, and may not be the same for all employees.

Economics/social psychology

The overarching tension is between economic theories and social psychological theories and we will see these tensions surfacing in many of the following chapters. Classical economic thinking emphasises the forces of supply and demand with labour as a factor in production. It thus takes as its starting point the competitive labour market, together with the assumption that both employer and workers are rational economic maximisers, the assumption that workers have full information, and the assumption that workers have unimpeded mobility (hefty assumptions). For a given type of labour, the firm will hire increasing numbers of workers up to the point where their wage is equal to the value of their marginal product.

Building on the foundations laid by Adam Smith's seminal study the *Wealth of Nations* in 1776 (Seligman, 1910), other economists have elaborated and critiqued the application of classical economics to pay determination. For instance, workers are not like peas in a pod. Organisations pay some workers more than others because their experience, education, and training add to their value (human capital theory).

PROOF

One of the key conundrums of employment relations is how to get employees to work productively, rather than merely to attend work. Economists argue that financial incentives can fulfil that role and, as we noted above, so do proponents of new pay. Accordingly, they say, some organisations pay some or all workers at a level above the market rate because they want to obtain superior performance and diligence (efficiency wage theory). Alternatively or additionally, organisations will offer selected key managers big bonuses if they achieve certain targets, believing that employees who have the opportunity to gain large bonuses will go the extra mile. The analogy is with large cash prizes in golf tournaments which, it is said, act as a spur to achievement (tournament theory).

Economic theorists recognise that the interests of shareholders and managers, or managers and employees, often differ. How can they be aligned? For economists, the answer, unsurprisingly, is financial rewards. Shareholders can shape managers' financial rewards and managers can shape employees' financial rewards to ensure that their interests coincide (principal/agent theory).

Against this background, employers are wage fixers, not wage takers. For a fuller discussion of these and other economic theories see Bryson and Forth, 2006; Claydon, 2001; Milkovich and Newman, 1996.

Social psychology takes the very different starting point of the long-term nature of the employment relationship. It argues that economists' theories do not match the real world, a view adopted in Chapter 7 on the UK's National Minimum Wage. Group norms develop among workers and these, rather than financial rewards, have a major influence on the extent that workers are productive (Claydon, 2001). Furthermore, social psychology emphasises social and institutional factors such as custom and practice both in the organisation and the sector, employers' strategies, pay determination methods and the values of the organisation, for instance on pay secrecy/openness and on risk taking/avoidance, and an appreciation of these factors is essential when considering the effort-reward bargain. This approach, which is at one with much industrial relations writing, incorporates the classic, seminal studies on group limitations of output such as those by Lupton, Roethlisberger and Dickson, and Roy; see selected readings in Lupton, 1972.

Social psychology also emphasises the range of the individual worker's needs: these are not just money. Indeed money is not a motivator, though its insufficiency can lead to dissatisfaction, according to Herzberg's well-known (but arguably less than robust) work on the motivator-hygiene theory. There are higher needs such as esteem and self-actualisation, as Maslow's equally well-known (and equally less than robust) hierarchy of needs posits. In today's parlance not only is the legal contract, which specifies terms and conditions of employment, important but the psychological contract is important too (Rousseau, 1995). The latter refers to the implicit, unwritten understandings that employees and employers have of what each can expect to give or receive. See Bryson and Forth (2006) and Gerhart and Rynes

(2003) for a fuller discussion of these theories and the evidence supporting them. ‘Total rewards’, which we discuss in our last chapter, aims to meld economics and social psychology.

Labour market/equity

We now turn to the other tensions shown in Figure 1.1, starting with the tension between the labour market and equity. To what extent are pay and benefits a response to supply and demand in the labour market and to what extent are they a response to considerations of equity? For instance, should finance lecturers at a university receive higher pay in response to external labour market factors than HR lecturers, even though both groups of lecturers perform the same educational tasks? Should a firefighter receive more or less pay than an ambulance paramedic; after all they both work in the emergency services? Even within the same occupation, should pay vary if the worker is in London or in Cornwall? Chapter 5, on local pay, suggests that whereas some occupations have a national or international labour market, others have a local one, but defining the labour market can be problematic.

On the one hand, pay systems that give primacy to labour market considerations essentially disregard the fact that individuals are influenced by relative, not absolute rewards and compare their pay with that of ‘referent others’. These are typically their fellow employees (internal equity) but may extend to those in other organisations (external equity). If employees are of the view that others are paid more for the same effort and that their pay is not fair, they will react negatively (for example, shirk) to correct their effort to their reward.

Equity and fairness, however, are not simple constructs: for instance, who are referent others and how is fairness perceived? Furthermore, equity and fairness embrace not only distributional justice, that is pay outcomes, but also procedural justice, the way the pay system operates, and interactional justice, how employees are dealt with by those responsible for administering pay such as their line managers, whose deficiencies in respect of reward have been noted above (see also Kessler, 2005). A full discussion of the role of equity and social comparisons is given in Adams (1963).

On the other hand, pay systems that give primacy to equity considerations essentially disregard the fact that the labour market for the same or similar jobs may vary significantly in different parts of the country (see Chapter 5 for a fuller discussion). Equally, there may be major market variations between different jobs at the same level, for instance between the pay for a marketing manager and a production manager.

Equal pay and value legislation, whereby men and women are paid the same where the demands of the job are the same in terms of such factors as effort, skill and decision, seeks to achieve gender pay equity (for instance, between a female cleaner and a male porter) and basically ignores labour market considerations. For further discussion of these issues, see Chapter 8.

Person/job

A further tension, which again stems from the overarching tension between economics and social psychology, concerns whether to reward the person or the job.

Trade unions have traditionally sought to establish standard rates of pay that reduce management's scope to award differential payments to workers based on their evaluation of a person's contribution where such workers are in the same or similar jobs (Heery, 2000) (Unions' responses to person-based pay are discussed in Chapter 6). Typically, a process of rewarding the job, not the person, is founded on a job-evaluation scheme to ensure a systematic approach, so that pay is felt fair.

Payment for the person rather than the job can be achieved either by recognition of length of service, on the assumption that the longer the person does the job, the more skills and knowledge is acquired, and/or in some form of performance pay. The latter can be either a mechanistic link between pay and output and/or after evaluation of behavioural characteristics (i.e., measurement of the individual's inputs). (Progression systems are discussed in Chapter 4).

Lawler (1990), a new pay proponent, argues that rewarding the job, not the person, sends a message to individuals about what is *not* included in their responsibilities, discouraging employees from being flexible and doing anything additional to their job description. Furthermore, he argues, job-based payment systems provide individuals who have been promoted with higher pay, *before* they have demonstrated that they can do their new jobs, while job evaluation reinforces hierarchy and bureaucracy. Yet those in favour of performance-related pay take little or no account of the problems of implementation: whether or not to use forced distributions, how to ensure that bias is eliminated, and how individual performance-related pay is consonant with team-working (see, for instance, Cannell and Wood, 1992; Makinson, 2000; Marsden and French, 1998).

Best fit/best practice

A further tension is the best fit/best practice debate. The basic premise of best fit is that pay structures should be tailored to support the way that the organisation is structured and how work gets done and to fit the organisation's business strategy. If the reward system is so matched, then pay can become a strategic lever to improve business performance. As Gomez-Mejia and Balkin (1992, p. 4) put it:

The emerging paradigm of the field is based on a strategic orientation where issues of internal equity and external equity are viewed as secondary to the firm's need to use pay as an essential integrating and signalling mechanism to achieve overarching business objectives.

New pay theorists essentially argue for this best fit approach. Thus Lawler (1990), for instance, argues that the pay structure should fit the organisational structure in terms of how centralised or decentralised it is, how cohesive or disparate the various departments/functions/levels are, and what the organisation's business goals are.

PROOF

Milkovich and Newman (1996) give as examples Wal-Mart's low-cost business objective, which is best fitted to a pay structure that generates low labour costs, and Hewlett-Packard's product innovation business objective, which requires a pay structure that rewards risk, initiative, and cross-functional flexibility. This issue of best fit, that is pay fitting the organisation's business strategy, also known as strategic pay, is discussed in much more detail in the next chapter.

The basic premise of best practice is that certain personnel and pay practices should be followed, irrespective of the organisation's structure and business objectives as those practices are correlated with business success. What is best practice, however, also known as high performance paradigms (HPPs), is open to question, although typically it entails bundles of HR policies and practices relating to selection and training, performance appraisal, single status policies, and contingent pay systems, such as individual performance-related pay, group bonuses, and profit sharing. Success can be defined in various ways, for instance economic performance such as sales per employee and worker commitment and satisfaction as measured by labour turnover.

A number of studies cast doubt on both the link between best practice and business performance and the link between best fit and business performance. Thus, Godard (2004, p. 355), reviewing the evidence on the best practice approach, suggests that 'we should treat broad-brush claims about the performance effects of HPPs, and about research findings claiming to observe them, with a healthy degree of scepticism', as support is at best limited. Similarly, Gerhart and Rynes (2003, pp. 260–261) point out that 'without measuring intervening variables, it is difficult to identify characteristics of either the pay design or context that contribute to [performance] variance'.

To sum up, as (Bryson and Forth (2006), p. 41) say:

In truth, a reliance on any one theoretical position is likely to overstate the coherence and functionality of wages, and those working in the field of industrial relations have long recognised that no single theory of pay setting has an over-riding claim to virtue.

The forthcoming chapters

We will return to these tensions in the final chapter, but now we explain the book's overall approach and outline its contents.

The book's approach

When perusing this book, readers should bear in mind a number of factors. First, while we recognise that Reward can be both financial and non-financial, this book focuses on financial rewards only (apart from the last chapter). Second, it reflects

the fact that Reward is both a theoretical field of study with an empirical underpinning and a management issue with a practical and operational impact. Accordingly, there are contributions not only from academic researchers but also from expert practitioners including management consultants, as the notes on contributors make clear. This, of course, means that some chapters are more theoretical than others.

Third, Reward draws on various academic disciplines: particularly industrial relations, law, and economics and these are reflected in the book. For instance, a legal perspective is to the fore in two chapters (one on the National Minimum Wage, the other on pay equity); an economics perspective is employed in Chapter 5 (local pay) while Chapter 3 (employee voice) employs an industrial relations perspective. Fourth, this book is not country specific. Although the majority of the chapters are UK-centred, three chapters (Chapter 2 on pay strategy, Chapter 6 on variable pay and collective bargaining and Chapter 12 on employee share ownership) have a cross-national focus. The choice of a cross-national focus in these chapters and not others, however, is unashamedly opportunistic – the reflection of current research.

This book, therefore, makes no claim to homogeneity or analytical or conceptual integration; its strength lies in diversity and eclecticism: of the background of contributors, of the field of study, and of country focus. Nonetheless, all the contributors adopt a critical perspective, going behind any rhetoric and challenging conventional thinking on Reward (with the final chapter pulling together cross-cutting themes in the individual chapters). Moreover, all the contributors have written in an accessible style, aiming to identify and then answer, with full supporting material, specific questions, while avoiding prescriptions.

Readers should also note that this book does not claim to be yet another textbook on Reward. Instead, it aims to identify the most significant areas of change in practice and this has governed the choice of chapters. For example, while a textbook typically has a chapter on employee benefits, of which only a small part is devoted to flexible benefits, this book has a whole chapter on flexible benefits, as that is the area of change. Similarly, the book has a chapter on pensions, because pensions provision is an area currently of major concern, while other benefits providing security when an employee does not work, such as sick pay, where change is currently minimal, are ignored.

Moreover, a textbook typically will have one or more chapters on performance pay (also known as contingent or variable pay) rehearsing theory and practice, but this book looks at new angles on this issue: how collective bargaining and variable pay interrelate (Chapter 6) and at performance pay in the context of progression systems (Chapter 4).

Another factor that has governed the choice of chapters is the decision to incorporate new research: several chapters contain research findings that are yet to be published elsewhere. On the one hand, whether or not there is new research on a topic is largely fortuitous. On the other hand, there is some theoretical validity as the incorporation of new research ensures that the book is at the cutting edge.

The book's outline

The book is divided into four parts:

- Introduction
- Pay issues
- Benefit issues
- Conclusions

The first part, the Introduction, contains this chapter and covers two other overarching issues: pay strategies and employee voice. In Chapter 2, Jonathan Trevor considers the pay strategies of multinational corporations and asks whether strategic pay is just rhetoric or whether a strategy can be rationally determined. Drawing on his research, he concludes that the aim of a pay strategy should not be to maximise value, given the constraints on the ability of companies to do so, but to minimise the inherent risks associated with pay, whether used strategically or not.

Chapter 3, by Esmond Lindop, looks at how employee voice on pay is articulated. Accordingly, Lindop considers not just collective bargaining, which has declined markedly from 1980 to 1996, but also newer forms of institutional and non-institutional employee voice such as consultation with non-union employee representatives, visits by pay review bodies to their 'constituencies', pressure groups, employee attitude surveys, and focus groups. He argues that these new mechanisms for employee input into pay decisions have been underestimated and are not necessarily inferior to collective bargaining.

Chapters 4 to 9 look at pay issues. In Chapter 4, Steve Palmer looks at grading structures and pay progression. Service-based increments and relatively narrow graded structures for many UK non-manual workers and spot rates or piece-work rates for UK manual workers have been replaced by broad banded and more amorphous pay structures, particularly in the private sector. At the same time, there has been a sharp increase in the use of performance-linked progression, though in the public sector this has often been tempered by some service related element. Indeed Palmer finds that there is a growing divergence between the public and private sectors in terms of pay, but both sectors face challenges including the management of employee expectations and the problems of implementing variable pay.

Chapter 5, by Bob Elliott considers local/regional pay, exploring both the arguments for it and its limits. Given the variations in the levels of unemployment and the cost of living between regions and between localities within regions, classical economic theory predicts that pay rates will vary between locally based establishments in national organisations. Yet although market forces may result in geographically based pay variations in the private sector, this is not the case in the public sector, where pay is less responsive to underlying labour market conditions. Against that background, Elliott reports evidence to support a move to greater localisation for some public sector workers, but also shows that it is not appropriate for all.

Chapter 6, by Paul Marginson, looks at performance pay and its impact on collective bargaining with its traditional emphasis on the rate for the job. Drawing on the author's research in retail banking and machinery and equipment in the United Kingdom, Marginson examines performance pay, both consolidated and unconsolidated, in its many forms, for example individual, team and organisation-wide, and challenges the received wisdom that performance pay necessarily undermines collective bargaining, arguing that under some circumstances collective bargaining has been reframed. He then looks at research in the same sub-sectors in Austria and Norway where collective bargaining arrangements differ from those in the United Kingdom. He argues that differences in the institutional arrangements have an effect on the relationship between collective bargaining and performance pay.

In Chapter 7, James Arrowsmith evaluates the impact of the UK's National Minimum Wage (NMW). Introduced in 1999, the NMW represented a defeat for the dominant paradigm of free market pay policies and classical economic theory. This predicted that the NMW would lead to increased wage costs, which in turn would lead to employers reducing the number of jobs. Arrowsmith, however, drawing on his and other published research, finds that the NMW's effect has essentially been benign. While significantly increasing the pay of the lowest paid (disproportionately women), the NMW has resulted in few job losses or changes in employment practices. Moreover, the NMW now seems firmly established and accepted by erstwhile political and business opponents.

Chapter 8, by Susan Corby, focuses on gender equality and pay and on age equality and pay. After discussing reasons for gender pay inequality and competing definitions of equality, it outlines the gender pay equity laws and their weaknesses. Then drawing on the author's research, it examines the practical problems faced by working women in claiming equal pay with men. It next turns to the legislation on age equality and pay, noting the numerous exemptions and loopholes. Corby argues that change is needed, not just a strengthening of the current laws, but a more root and branch approach to include new enforcement measures.

Chapter 9, by Jon Dymond and Helen Murlis, examines executive pay, considering why executive reward is such an emotive subject and the factors that have contributed to its growth. Next, the components of executive reward are analysed, including annual bonuses, long-term incentive plans and top-hat pensions. Finally, the authors ask whether executive reward will change.

Chapters 10 to 12 look at benefit issues. Chapter 10 by Sue Field, Christian Olsen, and Richard Williams examines the pensions revolution in the United Kingdom. Against a background of demographic change, successive waves of legislation and financial pressures, many employers have closed private sector final salary defined benefit schemes to new entrants, replacing them with either defined contribution or career average defined benefits. The public sector too is now starting to see major changes in provision. Field and her colleagues discuss what has happened and why. They then consider the balance between individual responsibility and collective

PROOF

provision and the type of employment related pension arrangements there are likely to be in the United Kingdom in ten to twenty years time.

In Chapter 11, Angela Wright examines flexible benefit schemes (also called cafeteria benefits), where individual employees are given a choice on the make-up of their benefit package. Such schemes, which have been made feasible by computer software programmes, have become popular in the United States largely because of the tax regime. Wright considers whether such flexibility is the future shape of UK benefits (and reward) and employers' objectives in introducing them. Are their objectives, such as greater cost-control or greater perceived value by employees, realised? Wright draws on her research into UK organisations which have introduced flexible benefits to answer these and other questions. She argues that the prospects for further growth of flexible benefits schemes does not seem likely in view of the potentially high transaction costs needed to make a scheme succeed both in terms of communication as well as other administrative requirements.

In Chapter 12, Andrew Pendleton considers employee share ownership plans in a number of European countries. In the context of a growing interest in such plans essentially from the 1990s, the chapter examines the policy objectives of the European Commission, and governments of European Union member states, as well as employer and union perspectives. Furthermore, drawing on the author's research, the chapter examines the incidence of share plans by European member states and discusses whether employee share ownership goes hand-in-hand with employee participation and whether union presence influences employee orientations to share ownership plans.

The fourth part is the conclusion: Chapter 13, the final chapter, draws together the themes in the individual chapters and considers the role of a total rewards approach in unifying all the elements of the employment experience.

References

- Adams, J. S. (1963) 'Towards an Understanding of Inequity', *Journal of Abnormal and Social Psychology*, 67, 422–436.
- Armstrong, M. and Brown, D. (2001) *New Dimensions in Pay Management*, London, UK: Chartered Institute of Personnel and Development.
- Armstrong, M. and Murlis, H. (1980) *A Handbook of Salary Administration*, London, UK: Kogan Page.
- Brown, W., Deakin, S., Hudson, M., Pratten, C., and Ryan, P. (1998) *The Individualisation of the Employment Contract in Britain*, Employment Relations Series 5, London, UK: Department of Trade and Industry.
- Bryson, A. and Forth, J. (2006) *The Theory and Practice of Pay Setting*, London, UK: Centre for Economic Performance, London School of Economics.
- Cannell, M. and Wood, S. (1992) *Incentive Pay: Impact and Evolution*, London, UK: Institute of Personnel Management.
- Chater, R., Dean, A., and Elliott, R. (1981) *Incomes Policy*, Oxford, UK: Clarendon Press.

- CIPD (2006) *Reward Management Annual Survey Report 2006*, London, UK: Chartered Institute of Personnel and Development.
- CIPD (2007) *Reward Management Annual Survey Report 2007*, London, UK: Chartered Institute of Personnel and Development.
- Claydon, T. (2001) 'Human Resource Management and the Labour Market' in Beardwell, I. and Holden, L. (eds) *Human Resource Management: A Contemporary Approach*, 3rd ed., Essex, UK: Prentice-Hall.
- Compact Oxford English Dictionary (2007), Oxford, UK: Oxford University Press.
- Computer Economics Ltd. (1977) *Salary Survey of Personnel and Financial Functions*, London, UK: CEL.
- Croner Reward (2007) *Personnel Rewards 2006–2007*, Stone, Staffordshire, UK: Croner Reward.
- Department of Employment (1977) *New Earnings Survey 1979*, London, UK: HMSO.
- Gerhart, B. and Rynes, S. (2003) *Compensation, Theory, Evidence and Strategic Implications*, Thousand Oaks, USA: Sage.
- Godard, J. (2004) 'A Critical Assessment of the High-Performance Paradigm', *British Journal of Industrial Relations*, 42, 2, 349–378.
- Gomez-Mejia, L. and Balkin, D. (1992) *Compensation, Organisational Strategy and Firm Performance*, Cincinnati, USA: South Western.
- Grainger, H. and Crowther, M. (2007) *Trade Union Membership 2006*, London, UK: Department of Trade and Industry.
- Grimshaw, D. and Rubery, J. (2007) 'Undervaluing Women's Work', *Working Paper Series No 53*, Manchester, UK: Equal Opportunities Commission.
- Heery, E. (2000) 'Trade Unions and the Management of Reward' in White, G. and Druker, J. (eds) *Reward Management: A Critical Text*, London, UK: Routledge.
- Incomes Data Services (1966) 'Looking Forward', *Report*, 1, April, 3.
- Incomes Data Services (2005a) 'Compensation and Benefits Specialists', *Executive Compensation Review*, 17 August.
- Incomes Data Services (2005b) *Organisation Practice on Pay Progression – A Scoping Study for the OME and CIPD*, Unpublished.
- Institute of Personnel Management (1978) *Digest 156*, July, xiii.
- Kersley, B., Alpin, C., Forth, J., Bryson, A., Bewley, H., Dix, G., and Oxenbridge, S. (2006) *Inside the Workplace: Findings from the 2004 Workplace Employment Relations Survey*, London, UK: Routledge.
- Kessler, I. (2005) 'Remuneration Systems' in Bach, S. (ed.) *Managing Human Resources*, 4th ed., Oxford, UK: Blackwell.
- Kessler, S. and Bayliss, F. (1998) *Contemporary British Industrial Relations*, 3rd ed., Basingstoke, UK: Macmillan.
- Lawler, E. E. (1990) *Strategic Pay*, San Francisco, USA: Jossey-Bass.
- Lupton, T. (1972) *Payment Systems: Selected Readings*, Harmondsworth, UK: Penguin.
- Makinson, J. (2000) *Incentives for Change*, London, UK: HM Treasury.
- Marsden, D. and French, S. (1998) *What a Performance: Performance Related Pay in the Public Services*, London, UK: London School of Economics.
- McBeath, G. and Rands, N. (1989) *Salary Administration*, 4th ed., London, UK: Gower.
- Milkovich, G. and Newman, J. (1996) *Compensation*, 5th ed., Boston, USA: Irwin/McGraw-Hill.
- Office for National Statistics (2006) *Annual Survey of Hours and Earnings 2006*, London, UK: ONS.
- Office of Manpower Economics (1973) *Incremental Payment Systems*, London, UK: HMSO.
- Personnel Publications (2007) *People Management*, 13, 12, June, 61.

PROOF

- Purcell, J. and Hutchinson, S. (2007) *Rewarding Work – The Vital Role of Line Managers*, London, UK: CIPD.
- Reid, G. and Robertson, J. (1965) *Fringe Benefits, Labour Costs and Social Security*, London, UK: George Allen & Unwin.
- Roberts, I. (2001) 'Reward and Performance Management' in Beardwell, I. and Holden, L. (eds) *Human Resource Management: a Contemporary Approach*, 3rd ed., Essex, UK: Prentice-Hall.
- Rock, M. (1984) *Handbook of Wage and Salary Administration*, 2nd ed., New York, USA: McGraw-Hill.
- Rousseau, D. (1995) *Psychological Contracts in Organizations*, London, UK: Sage.
- Schuster, J. and Zingheim, P. (1992) *The New Pay: Linking Employee and Organizational Performance*, New York, USA: Lexington.
- Seligman, E. (1910) *An Inquiry into the Nature and Causes of the Wealth of Nations by Adam Smith*, Volume 1, with an Introduction by Prof. Seligman, London, UK: Dent.

Index

- age, longevity issues, 184, 185, 191–3 (Figure 10.6, Table 10.1), 198, 200
- age equality and pay, 17, 139
- age discrimination, 139, 147–9, 209
- changes to legislation, 139, 150–1
- enforcement, 151–3
- law, 147–9
- pay progression, 77–8
- practice, 149
- proposals for reform, 149–53
- Age Regulations, 126, 139, 147–9, 151, 154
- agency theory, 160, 161–2, 211, 212
- Agenda for Change (AfC), 51, 52, 91, 142
- anchor points, 67, 251
- Annual Survey of Hours and Earnings (ASHE), 83–4, 107, 127, 158
- appraisal
- avoidance of bias, 64
- best practice, 14
- lack of training in, 9
- managerial discretion, 105
- merit pay based on, 104, 107, 109, 111
- pay progression based on, 64, 69
- performance pay based on, 102–3
- trade union response, 115
- armed forces, 50, 52
- Australia, pensions, 190, 252
- Austria
- employee share ownership, 230 (Table 12.1)
- minimum-wage system, 123
- PPSs and collective bargaining, 17, 112–14, 251
- banking, performance pay and collective bargaining, 17, 107–14, 251–2
- Belgium, employee share ownership, 227, 229, 230 (Table 12.1), 233, 235, 236
- benefits
- executive, 167–8
- flexible, *see* flexible benefits
- Berkeley Group, 176
- best fit approach, 10 (Figure 1.1), 13–14, 255
- best practice, 13–14
- accepted standards, 212
- best-fit tensions, 10 (Figure 1.1), 255
- codes, 27
- examples, 29, 32
- total rewards, 255
- Blair, Tony, 44
- blue-collar workers, payments systems, 107–8
- bonuses
- annual, 17, 167, 168, 169–71, 177
- banking sector, 107, 108, 109, 110, 111
- case studies, 30, 33
- company performance, 113, 115
- consultation and negotiation, 110–11, 113, 115
- contractual issues, 143
- cost-control, 105
- deferred bonus problem, 172 (Figure 9.6)
- deferred share bonus plans, 171–2, 172 (Figure 9.6)
- French share ownership plans, 228–9
- group, 14
- local sales-based, 115
- machinery and equipment sector, 107–11
- managerial rationales, 109
- minimum annual payout, 171 (Figure 9.5)
- non-consolidated, 68, 74, 77, 78
- opportunities, 30
- pay progression approaches, 68, 74, 77, 78
- performance pay systems, 102
- productivity-based, 105, 115
- public sector, 178
- publication proposals, 150
- salary specialists, 4
- shares, 226
- stakeholder reward, 104

- bonuses – *continued*
 - target-driven, 11
 - trade union views, 110, 111, 115
 - US strategy, 78
- broad banded pay structures
 - anchor points, 67, 251
 - employee expectations, 78
 - individual job ranges, 68
 - job families, 67
 - limits to scope, 67, 251
 - move towards, 16, 62
 - 'new pay', 7, 61
 - pay progression, 65–7, 70
 - private sector, 16, 64, 72, 248
 - public sector, 74
 - reference points, 67, 251
 - segments and zones, 67, 68, 251
- bus industry, 240

- Cable & Wireless, 176
- Cadman* case, 63
- cafeteria benefits, 18, 29, 206
- care homes, 130, 131
- career families, 67–8
- Chartered Institute of Personnel and Development (CIPD), 4, 22, 27, 62, 70–2
- chief executive officers (CEOs), 157, 163, 170
- Churchill, Winston, 122–3
- cleaners, cleaning, 12, 51, 53, 54, 94, 129, 131
- clothing and footwear, 131
- collective bargaining
 - in Austria, Norway and UK, 15, 17, 112–14
 - changing pattern, 43–7
 - coverage, 46 (Table 3.2), 133
 - decline, 6, 16, 43–7, 56, 82, 103, 121, 250
 - employee share ownership, 241
 - employee voice, 41–2, 48–9 (Figure 3.1)
 - incidence and coverage, 46 (Table 3.2)
 - performance pay and, 15, 17, 102–4, 106, 114, 116, 251
 - private sector, 21, 121
 - role, 121
 - traditional, 5, 37, 41
- communication channels, 55–6
- community unions, 55
- company councils, 48–9
- competency-based progression, 68–9
- Conservative
 - government, 73, 123
 - party, 124, 150, 152
- consultants, 30, 252, 255
- consultative committees, 49 (Figure 3.1)
- contingency theory, 26, 29, 35
- contribution-based progression, 69–70
- cost-control, 105, 109
- cost of living
 - annual adjustments, 7, 73, 248
 - guaranteed adjustments, 77
 - local and regional variations, 16, 86–90, 93 (Figure 5.2), 95, 97
 - PPSs, 110
- defined benefit pension arrangements, 17, 185, 186, 188–90, 194, 196
- defined contribution pension arrangements, 17, 168, 184, 185, 189 (Figure 10.3), 194, 204
- Denmark, employee share ownership, 230 (Table 12.1)
- dentists, 50, 91–2
- Director's Remuneration Report Regulations, 159, 168, 250
- discrimination law, 77–8, 139, 141–5, 147–9, 150–4
- doctors, 50, 91–2, 94, 95–7, 142
- dual channel representation, 112–13, 114, 116

- early retirement, 187
- East London Communities Organisation (TELCO), 54
- economics
 - perspectives, 15, 212–13
 - tension with social psychology theories, 10–12 (Figure 1.1), 13, 255
- education, local pay, 91
- employee expectations, 78
- employee share ownership, 18, 224–5, 240–2
 - characteristics of plans, 225–7
 - evidence on union presence and share ownership, 238–40
 - examples of plans, 228–9
 - government policies towards, 232–5
 - incidence, 229–32 (Table 12.1)
 - legislation and regulations, 229–30, 250
 - participation rates, 231–2
 - pay strategy case studies, 29
 - taxation arrangements, 227, 230
 - trade union perspectives, 235–8
- employee surveys
 - employee voice, 16, 41, 49 (Figure 3.1), 53–4, 56, 248
 - flexible benefits, 213, 215 (Table 11.2), 216
- employee voice, 41–2, 55–6
 - emergence of, 42–7
 - new outlets and influences, 47–55
 - public sector, 41, 50–3, 248
- employers, pension provision, 202–3
- employment tribunals
 - equal pay, 141, 150–3
 - legal aid issues, 139, 144, 152
 - multiple equal pay claims, 150–1
 - National Minimum Wage, 127, 153

- employment tribunals – *continued*
 public/private sector differences, 249
 representation, 145
- Enron, 237
- Equal Opportunities Commission (EOC), 152
- equal pay, 139, 153–4
 age discrimination, 147–9
 age equality and pay, 139, 147–9
 changes to legislation, 150–1
 enforcement, 151–3
 equality and the law, 141
 gender equality and pay, 12, 139–40
 gender pay gap, 140
 gender pay research, 145–7
 legal framework, 141–2
 local pay, 12, 88, *see also* local pay
 multiple claims, 150, 251
 National Minimum Wage, 129
 pay progression arrangements, 75
 problems with law on equal pay between
 men and women, 142–5
 proposals for reform, 149–53
 public sector, 75, 142, 248, 249
- Equality and Human Rights Commission
 (EHRC), 152
- Equitable Life, 188
- equity
 markets, 187, 190
 ownership, 29
 stakes held by employees, 241
- equity, pay
 gender and age, 139, 154, 250
 labour market tensions, 10 (Figure 1.1), 12, 255
- Ethical Trading Initiative, 55
- Europe, employee share ownership, 224–5, 252
- European Commission, 18, 153, 233
- European Court of Justice, 63
- European legislation, 203, 250
- European Union, 18, 224, 240
- executive reward, 17, 157, 178–9
 agency theory and its critiques, 161–2
 annual report coverage of executive
 remuneration, 179 (Figure 9.9)
 base salary, 165–7
 change, 176–7
 changing nature of companies, 161
 components, 165–76
 conclusion, 178–9
 elements of, 169 (Figure 9.4)
 emotive subject, 158–60
 executive supply and demand, 164 (Figure 9.3)
 FTSE 100 pay, 160 (Figure 9.2)
 FTSE 350 pay, 159 (Figure 9.1)
 growth in, 160–5
 pay disclosure, 164–5
 pensions, 17, 168–9
 perspective on, 159–60
 private sector, 173–6, 249
 public sector, 177–8, 249
 regulation, 159, 168, 250
 ‘rewards for failure’ perception, 159
 size of, 158
 star culture, 161
 talent shortage, 162–4
- Fair Wages Resolution, 122, 123
- Finland, employee share ownership, 230 (Table 12.1)
- flexible benefits, 18, 206, 220–1
 case studies, 29
 communications issues, 220
 defined contribution pension schemes, 194
 economic perspectives, 212–13
 evaluating effectiveness, 213–15 (Table 11.2)
 in a financial services company, 216–17
 future of, 221, 251
 growth in UK, 206–7, 252
 in a housing sector organisation, 218–20
 legal aspects, 209
 levels of understanding, 219–20
 marketing, 213
 origins, 206–7, 252
 psychological perspectives, 211–12
 reasons for non-participation, 217
 (Figure 11.1)
 recruitment and retention effects, 219
 study of 30 organisations, 216
 take-up, 208–9 (Table 11.1)
 types of scheme, 208
 value for money, 210–15
 which benefits can be flexed?, 208
- focus groups, 16, 49 (Figure 3.1), 53, 214–15
 (Table 11.2)
- France
 employee share ownership, 229, 230 (Table
 12.1), 233–4, 235, 236, 239, 240
 pensions issues, 199
 share ownership plans, 228–9
- Gangmasters Licensing Authority, 153
- gateways, 74, 253
- gender equality and pay, 17, 139–40, 153–4
 changes to legislation, 150–1
 enforcement, 151–3
 equality and the law, 141
 gender pay gap, 140
 gender pay research, 145–7
 legal framework, 141–2, 250
 problems with law on equal pay, 142–5
 proposals for reform, 149–53
 UK public sector, 142

- Germany
 employee share ownership, 227, 229, 230
 (Table 12.1), 234, 235, 236, 238, 239
 minimum-wage system, 123
 global campaigns, 49 (Figure 3.1)
 government
 central, 92
 local, 90–1, 150–1, 249
 government policies
 employee share ownership, 232–5
 pensions, 200–1
 public sector, 249–50
 grading structures, 16
 Greater London Authority (GLA), 54
 Greece, employee share ownership, 230
 (Table 12.1)
- hairdressing, 53, 126, 127, 130
 Herzberg, Frederick, 11
 high performance paradigms (HPPs), 14
 HM Revenue and Customs (HMRC), 127–8
 holiday entitlement, 208, 209
 Holland, *see* Netherlands
 horse riding schools, 130
 hospitality, 53, 125, 130, 131, 148, 231
 hospitals, 95–6
 ‘hygiene’, 11, 33
- incentive plans
 long-term, 17, 173–6, 174 (Table 9.1)
 payout curve, 175 (Figure 9.7)
 strategic pay, 29
 terminology, 253
- Incomes Data Services, 62
- individuals
 benefits, 29–30
 bonuses, 110, 115
 employee voice mechanisms, 42, 48–9
 (Figure 3.1), 52, 53–4, 56, 248
 equal pay, 141, 142, 143, 148, 150–3, 251
 executive reward, 161, 165
 flexible benefits, 18, 29–30, 206, 207, 211,
 221, 251
 incentives, 111
 labour market/equity tensions, 12, 255
 limits to individualism, 9, 242, 250–1
 market worth, 66
 merit pay, 108, 109, 111, 113, 114
 National Minimum Wage, 131, 133
 new pay agenda, 7, 250
 pay progression, 62, 64, 65, 66–7, 68, 69, 70–1
 (Tables 4.1, 4.2), 72, 74, 77, 251
 pay ranges, 68
 pay rates, 65, 68, 120, 133
 pensions choice, 17, 187–8, 189–90, 194, 196,
 198, 201–2
 performance appraisal, 69, 70, 104
 performance-related pay, 13, 102–3,
 105–6
 person/job tensions, 10 (Figure 1.1), 13
 in private sector, 72, 248, 251
 in public sector, 73–4
 responsibility and choice, 17, 24, 204
 share ownership, 226, 232
 social psychology approach, 11
 trade union view of individualisation, 105–6,
 109, 111
 industrial relations, 15, 105, 241
 Information and Consultation of Employees
 (ICE) Regulations, 49
 Ireland, employee share ownership, 230
 (Table 12.1)
 isomorphism, 26–8, 35
 Italy
 employee share ownership, 230 (Table 12.1),
 235, 236
 minimum-wage system, 123
 state pension, 200
- Japanese companies, 252
 job, payment for, 13
 job evaluation
 equal pay law, 141, 142, 144
 increased use, 67, 92
 local pay, 91, 92
 ‘new pay’ and, 7–8
 pay progression, 63, 67
 person/job tensions, 13
 public sector use, 8, 92, 142, 249
 job families, 67–8
 John Lewis Partnership, 226
 Joint Consultative Committees
 (JCCs), 49
- Labour Force Survey (LFS), 107, 108
 Labour government, 44, 45–6, 52, 73,
 123–4
 labour market(s)
 boundaries, 95
 dual labour market, 140, 178
 equity tensions, 10 (Figure 1.1), 12, 255
 influence on reward, 252 (Figure 13.1)
 internal, 63, 120
 international, 95
 London allowance, 96
 National Minimum Wage, 124, 129, 132
 private sector, 83, 88–9
 public sector, 90, 97

- labour market(s) – *continued*
 - regional and local 82, 83, 88–9, 90, 93, 94, 248, 250
 - unemployment rates, 97
- legislation and regulation
 - equality and pay, 139, 150–1
 - employee share ownership, 229–30, 250
 - European, 203, 250
 - National Minimum Wage, 250
 - pensions, 186–7, 194, 203, 250
- line managers
 - application of progression criteria, 75
 - appraisals of performance, 9, 104
 - role, 8–9, 12, 66, 75
 - views on performance pay, 9, 65
- living wage campaigns, 49 (Figure 3.1), 54–5
- local government, 90–1, 150–1, 249
- local pay, 16, 82, 98–9
 - amenity of different localities, 87
 - consequences of public–private differences, 92–4
 - cost of living, 86–7
 - distribution of private sector SSWDs, 84 (Table 5.1)
 - labour market, 12
 - limits to individualism, 251
 - private sector, 88–90, 248
 - public sector, 90–2, 248
 - reasons for variation, 86–8
 - recent developments, 92
 - refining the analysis, 97
 - regional price levels, 86 (Figure 5.1)
 - remaining issues, 98
 - should pay be localised?, 94–7
 - theory of net advantages, 87–8
 - variations, 83–6
- London
 - living wage campaign, 42, 54
 - weighting, 88, 90, 91, 92
- Long-Term Incentive Plans (LTIPs), 173
- longevity issues, 184, 185, 191–3 (Figure 10.6, Table 10.1), 198, 200
- Low Pay Commission
 - creation, 52, 124
 - employee voice, 41, 49 (Figure 3.1), 50, 56
 - impact, 52, 53
 - operation and enforcement of NMW, 52–3, 125
- machinery and equipment, performance pay and collective bargaining, 17, 107–14, 251–2
- Malaysia, investment, 204
- manual workers, 62
- Maslow, Abraham, 11
- maternity provisions, 141, 153, 250
- Maxwell, Robert, 187
- merit pay
 - in banking sector, 107, 108, 110
 - consultation and negotiation, 110
 - in machinery and equipment sector, 108, 109, 111
 - managerial rationales, 109
 - Norwegian companies, 113
 - pay progression and, 66, 74
 - performance management, 104
 - trade union responses, 105, 109–10, 114–15
 - US strategy, 78
- Minimum Funding Requirement, 187
- Mirror Group Pension Fund, 187
- monopsony, 132–3, 140
- multi-employer bargaining, 43, 112, 116
- multinational companies, 252–3
- national and organisational factors influencing reward, 251–3 (Figure 13.1)
- National Health Service (NHS)
 - Agenda for Change (AfC), 51, 52, 91, 142
 - collective bargaining, 52
 - equal pay claims, 150, 249
 - executive reward, 177–8
 - local pay, 91–2
 - pay progression, 74, 253
 - Pay Review Body, 51
- National Minimum Wage (NMW), 120–2, 134–5
 - enforcement, 127–8
 - impact, 17, 53, 129–33, 250
 - operation and enforcement, 125–8
 - origins, 123–5
 - precursors, 122–3
 - rates, 125–7, 126 (Table 7.1), 128
- National Minimum Wage Group, 11
- Netherlands
 - employee share ownership, 227, 229, 230 (Table 12.1), 234, 235
 - pension schemes, 198, 252
- New Earnings Survey (NES), 107, 108
- New Labour, 44, 46, 52
- 'new pay', 7–8
 - origins, 7, 252, 254
 - pay progression, 61, 78
 - proponents, 11, 13
 - trend to individualism, 7, 250
- Norway, PPSs and collective bargaining, 17, 112–14, 252
- nurses, 50, 51, 94, 97

- Office of Manpower Economics (OME), 62, 68, 69, 70, 72
- paternity leave, 153, 250
- pay
 - local/regional, *see* local pay; regional pay
 - progression, *see* progression
 - strategy, *see* strategic pay
- pay determination
 - centralised, 32, 37–8
 - decentralisation, 31, 47, 56
 - economics and social psychology, 10–11
 - employee share ownership, 225, 235, 236, 239, 241
 - employee voice, 41–2, 55–6
 - individualisation of, 207
 - institutional pressures, 26, 28
 - institutions, 50–3
 - local pay, 82
 - methods 1984–1998, 43–4 (Table 3.1)
 - strategic pay, 23, 34–5, 38
- pay drift, 76, 253
- Pay Review Bodies (PRBs)
 - costs of recommendations, 76
 - creation, 50
 - employee voice, 41, 49 (Figure 3.1), 50, 52, 56
 - growth of, 50–1 (Table 3.3), 248
 - impact, 52, 56, 248
 - recommendations on base pay, 254–5
 - working methods, 16, 51–2
- pay zones, 67, 68, 251
- payments-by-results (PBR), 102, 104, 107, 108, 113, 115
- Pension Protection Fund, 194
- pensions, 17–18, 183–4, 203–4
 - accounting changes, 193
 - benefit provision for new joiners 2000, 188 (Figure 10.2)
 - career average schemes, 17, 185, 186, 195, 198, 199, 202, 252
 - changes to defined benefit plans, 196
 - changing regulatory framework, 194–5
 - consequences of shift to defined contribution arrangements, 196–9
 - cost of provision, 184, 195, 202
 - defined benefit arrangements, 17, 185, 186, 188–90, 194, 196
 - defined contribution, 17, 168, 184, 185, 189 (Figure 10.3), 194, 204
 - employers' approaches, 202–3
 - executive, 17, 168–9
 - final salary schemes, 17, 168, 183–6, 188, 189 (Figure 10.3), 195, 198, 199, 202, 219
 - future trends, 200–3
 - government action, 200–1
 - history of schemes, 184–9
 - individual choice, 187–8, 201–2
 - investment issues, 184, 190–1 (Figures 10.4, 10.5), 198
 - legacy arrangements, 203
 - legislation, 186–7, 194, 203, 250
 - longevity issues, 184, 185, 191–3 (Figure 10.6, Table 10.1), 198, 200
 - member contribution rate, 197 (Figure 10.8)
 - member education, 198
 - Minimum Funding Requirement, 187
 - money purchase, 185, 187
 - new joiners, 188 (Figure 10.2), 189 (Figure 10.3), 195
 - participation in occupational pension schemes, 195, 196 (Figure 10.7)
 - preserved, 186–7
 - public sector arrangements, 199–200
 - risks, 184–6 (Figure 10.1), 190, 193, 195, 196–8, 201, 202–3
 - stakeholder pensions, 185–6
 - state pension, 186
 - trade union reactions, 198–9
 - trend from defined benefit to defined contribution schemes, 195
 - trends in pension provision for new joiners, 189 (Figure 10.3)
 - types of occupational pension scheme, 184–6, 185 (Figure 10.1)
- performance management, 104
- performance-related pay
 - in Austria, Norway and UK, 112–14
 - awards, 7
 - collective bargaining, 102–4, 114–16, 251
 - consultation and negotiation, 110–11
 - cross-national dimension, 112–14, 116
 - implementation, 13
 - implications and conclusions, 114–16
 - management objectives, 104–5
 - managerial rationales, 109
 - pay progression, 16, 64–5, 77
 - profile, 108–9
 - public sector approach, 64–5, 73
 - rise of performance pay systems, 102–4
 - strategic pay, 30
 - terminology, 253
 - threat to unions?, 114–16
 - trade union responses, 105–6, 109–10
 - types, 102
 - union involvement, 106
- person, payment for, 13, *see also* individuals

- piece-work
 - bargaining tradition, 107, 115
 - earnings in 1970s, 5
 - NMW rates, 125, 130
 - PPS, 102, 114
 - replacement, 16, 108
- Plan d'Épargne d'Entreprise (PEE), 228–9
- Plan d'Épargne Retraite Colectif (PERCO), 229
- police service, 91, 94–5
- Portugal, employee share ownership, 230
 - (Table 12.1), 236
- pressure groups, 16
- price levels, regional, 86 (Figure 5.1)
- private sector
 - collective bargaining, 45–7, 121
 - distribution of private sector SSWDs, 84
 - (Table 5.1)
 - local pay, 16, 82, 88–90, 92–4
 - Low Pay Commission, 52–3
 - pay progression, 16, 70, 72, 75, 248
 - pension schemes, 17
 - public sector differences, 247–50
 - spatial patterns of pay, 93 (Figure 5.2)
 - trade union presence, 88, 251
- productivity, 104–5
- profit-related pay, 106
- progression, pay, 16, 61–2, 77–8
 - age discrimination, 77–8
 - broad bands, 65–7
 - competency-based, 68–9, 72
 - contribution-based, 69–70
 - costs, 75–6
 - criteria used to manage, 71 (Tables 4.1, 4.2)
 - employee expectations, 78
 - equal pay, 77–8
 - hybrid schemes, 69–70, 72
 - incremental, 63–4
 - individual rates and ranges, 68
 - job families and career families, 67–8
 - limits to individualism, 251
 - OME/CIPD research, 70–2
 - pay drift, 76
 - performance and, 16, 64–5, 70, 72, 77
 - private sector, 16, 70, 72, 75, 248
 - public sector, 16, 64–5, 70, 72–5, 77, 248
 - service and, 62–4, 70, 72
 - skills-based approaches, 69, 72
 - staff at maximum, 76–7
 - systems, 68–70
 - white-collar, 62–3
- promotion
 - equality and the law, 141
 - local and regional variations, 85, 96
 - pay progression, 62, 63–4, 66, 68, 73
- public sector
 - CEOs, 157
 - collective bargaining coverage, 45–7
 - (Table 3.2), 50
 - employee voice, 41, 50–3, 248
 - executive reward, 177–8
 - gender equality, 142
 - local pay, 16, 82, 90–2, 92–4 (Figure 5.2)
 - pay progression, 16, 64–5, 70, 72–5, 77, 248
 - pay review bodies, 50–2
 - pension arrangements, 17, 199–200, 203
 - performance-related pay, 64–5, 73
 - private sector differences, 247–50
- rate for the job, 17, 90, 111
- rationalism, 23–4
- reference points, 67, 251
- regional pay
 - reasons for variations, 86–8
 - regional price levels, 86 (Figure 5.1)
 - spatial patterns of pay, 93 (Figure 5.2)
 - variations, 16, 83–6
 - see also* local pay
- regulation, *see* legislation
- resource dependence theory, 211, 212, 221
- retail sector, 45–6 (Table 3.2), 53, 98, 129–31
- retirement, early, 187
- reward
 - changing context, 5–6
 - strategy, 5
 - term, 4
 - total, *see* total reward(s)
- risk
 - earnings at risk, 102, 106, 108, 116
 - employee share ownership, 225, 231, 233–4, 237, 239, 241
 - management, 21, 38, 198
 - pensions, 184–6 (Figure 10.1), 190, 193, 195, 196–8, 201, 202–3
 - risk free reward packages, 162
- Rose, Stuart, 161
- Royal Bank of Scotland, 89–90
- Royal Mail, 178, 199
- Sainsbury's, 176
- salary
 - administration, 3–5
 - base, 165–7
 - executive rate increases, 166–7
 - level, 165–6
 - sacrifice, 209
- Save As You Earn (SAYE), 228, 232, 250
- Scardino, Marjorie, 163
- Scotland, Distant Island Allowance, 96

- Share Incentive Plan (SIP), 228, 250
- shares
 - share awards, 225
 - share option plans, 226
 - value of performance share awards and share option awards, 176 (Figure 9.8)
 - see also* employee share ownership
- Sharesave, 228
- sick pay, 15, 149, 218, 250
- Siemens, 199
- Singapore, investment management, 204
- single channel
 - bargaining, 112, 116
 - representation, 112–14, 116
- skills
 - career families, 68
 - executive reward, 161, 165, 166
 - gender pay gap, 140
 - individual, 7, 61
 - managers', 8–9, 89
 - pay progression, 62, 68, 69–72 (Tables 4.1, 4.2), 253
 - pay specialism, 5, 8
 - PPSs, 102, 105
 - regional variations, 83
 - total rewards, 253
- Smith, Adam, 10, 87
- social psychology, 10–12 (Figure 1.1), 13, 255
- Spain
 - employee share ownership, 230 (Table 12.1), 238
 - state pension, 200
- stakeholder(s)
 - consultation, 142
 - pensions, 185–6, 187
 - resource dependence theory, 212
 - reward, 104, 109
 - trade union involvement, 121
- Standardised Spatial Wage Differentials (SSWDs), 83–5, 84 (Table 5.1), 92, 94, 98
- state pensions, 186, 200
- stock purchase plans (SPP), 29
- strategic pay, 16, 21, 36–9
 - case studies, 29
 - contingency and isomorphism, 26–8
 - criticisms, 24–6
 - definition, 21–2
 - fresh perspective, 37–9
 - practice, 28–36, 31 (Table 2.1), 32 (Table 2.2), 33 (Table 2.3)
 - rationalism, 23–4
 - theory, 23–8
 - three levels, 28–9, 34
- supply and demand
 - classical economic thinking, 10, 120, 133
 - equity and pay, 12, 122
 - executive rewards, 162, 163, 164 (Figure 9.3)
 - regional variations, 83
- Sweden, employee share ownership, 230 (Table 12.1), 235
- talent shortage, 162–4
- teachers, 50, 51, 91, 95
- team-working, 13, 73, 105, 108, 111
- terminology, 253
- top management team (TMT), 163
- total reward(s)
 - concept, 247, 253–5
 - economics/social psychology, 12
 - evaluation, 255
 - flexible benefits, 207, 218
 - future of, 253–5
 - models, 30, 31 (Table 2.1)
 - origins, 254
 - pension arrangements, 194
 - role, 18
- total shareholder reward (TSR), 170, 173, 174, 175 (Figure 9.7)
- trade unions
 - attitude to PPSs, 109–12, 251
 - in Austria, Norway and UK, 112–14
 - changing pattern and pay bargaining, 43–7
 - decline in private sector, 88, 251
 - employee voice, 42
 - influence, 5–6, 18, 41, 47, 75, 82, 88
 - involvement in regulating PPSs, 110–11
 - market interference, 121
 - membership, 5, 6, 43, 47–8, 88, 248
 - National Minimum Wage, 123–4
 - pension arrangements, 198–9
 - perspectives on employee share ownership, 235–40
 - responses to merit pay, 109–10
 - standard rates of pay, 13
- Trades Union Congress (TUC), 42, 124
- Travel to Work Areas (TTWAs), 95
- unemployment
 - economic theory, 120, 123, 132
 - levels, 6, 16, 45
 - local variations, 89, 97
 - National Minimum Wage, 129, 132
- United States of America (USA)
 - class actions, 143
 - collective bargaining, 250
 - community unions, 55
 - employee share ownership, 232, 234, 237, 238, 240
 - executive reward, 162, 167

PROOF

United States of America (USA) – *continued*

flexible benefits, 18, 206–7
minimum wages, 132
'new pay', 7, 252, 254
pension arrangements, 185, 190, 198, 252
total rewards, 254
trade union membership, 55
variable pay, 78

Vandevelde, Luc, 161

variable pay, 15, 78

Wages Councils, 6, 123

Welch, Jack, 167

white-collar workers, 62–3

Women Working Worldwide (WWW), 55

Working Time Regulations, 130, 153, 209

Workplace Employment Relations Surveys

(WERS), 43, 44–5, 47, 48, 50, 53, 55, 103,
107–8, 133, 216, 238

Workplace Industrial Relations Surveys (WIRS), 43

Xstrata, 176

PROOF