



Change agenda

# Rewarding work

## The vital role of line managers



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# Introduction

This Change Agenda is the first of three reports deriving from research being undertaken in six organisations concerning line manager roles and behaviour in rewards and in training, learning and development.

This report focuses on reward management. A second Change Agenda will look at training, learning and development. And a final, more extensive, research report, written when the case studies are completed, will combine the two areas since there is considerable overlap between them. Both of these will be published in the spring of 2007. The research was commissioned by the CIPD and was undertaken by John Purcell and Sue Hutchinson. The research is based on six case studies, three of which are examined in depth in this publication.

# The vital role of line managers in people management

The importance of line managers in people management came vividly to the fore in earlier research undertaken by Work and Employment Research Centre (WERC) on behalf of the CIPD in 1999–2003. This explored and tried to explain what impact people management had on organisational performance (Purcell et al 2003). Research was undertaken in 12 leading companies and a further six small knowledge-intensive firms (Swart et al 2003).

The focus of the research was the employees' experience of, and reaction to, HR practices and wider questions of organisational vision and values. It was hypothesised that these experiences were associated with employee beliefs and attitudes towards their employer, as seen in organisational commitment and job satisfaction.

These positive attitudes, where they existed, then strongly influenced discretionary behaviour – 'going the extra mile' – that is, co-operative behaviour in dealing with customers or patients and working with team members and other employees, including their line manager. These behaviours best explained how people management influences performance.

It was clear in the analysis of employee responses that it was their relationship with their line manager, especially their immediate or front-line manager, that was especially important and powerful. This was seen in how line managers delivered HR practices and, more generally, in how responsive they were to worker needs and in the quality of leadership shown.

This line manager role in 'bringing policies to life' was clearly related to employees' satisfaction with HR practices, contributing to levels of organisational commitment and job satisfaction. Yet there was a wide variation in the responses, with some employees being very positive about how their manager provided

information, gave them opportunities to make suggestions and responded to them, while others were very critical.

The vital role of front-line managers in people management was, surprisingly, not recognised as something needing special attention in these leading companies. It was taken for granted. Some, however, responded to the first-year research results by taking much more care with the selection criteria for front-line managers and in their training and the range of support provided to them.

The results of these initiatives were very positive a year later, as seen in employee reactions both to individual practices, like appraisal, and in terms of organisational commitment. There was evidence of a performance effect (Purcell and Hutchinson 2007). The research didn't look directly at the role of front-line managers, being concerned more with employee response.

The research reported here now allows us to ask how, if at all, the design of HR policies in the area of reward and performance management takes account of the fact that they are delivered, in the main, by line managers and, how line managers are selected and trained to undertake their people management responsibilities. We're interested, too, in what line managers actually do in rewarding employees.

First, we consider what, in practice, reward management means and how this is strongly influenced by context. Then we use the case studies to look in more detail at reward systems associated with pay and benefits, non-financial rewards used by line managers and the particular importance of the performance management system in structuring management roles.

Then we look at the role of the HR department in designing reward policies with line managers in mind, in monitoring compliance and providing support. We find that the design of the performance management system is particularly important and we report evidence that online systems can help to get the performance management system embedded into the practice of management, rather than being a resented 'bolt-on' annual chore, as is sometimes the case.

In our conclusion, we say more on the need for embedded systems that give priority to the process of reward management, beyond the technical design of the payment and reward system.

# The practical meaning of reward

In order to see what line managers do in reward management, we need to be clear on the components of reward and their purpose. The standard objectives in the design of reward systems are the requirements to recruit, retain and motivate. In a practical sense, this means that the reward system in use must be capable of providing answers to the employee's questions of 'why join?', 'why stay?' and 'why bother?'

We know that employee engagement, or commitment, is derived from and influenced by a variety of factors, some, but by no means all, of which are related to reward. In some circumstances, reward is an incentive that logically comes before, and influences, the requisite behaviour. In others, it follows exemplary behaviour, but this may then, by reputation, incentivise future behaviour if the reward is seen as worth having.

The idea of 'total reward' significantly opens up the meaning and management of reward by incorporating both extrinsic and intrinsic rewards. Armstrong and Brown (2006) see extrinsic rewards as being essentially transactional in nature as in the effort-reward relationship, while intrinsic rewards are more relational, being concerned with learning and development and work experience.

Armstrong and Brown (2006, pp27–9) provide a number of examples of total reward in contemporary companies. One of these is Land's End, where total reward covers seemingly the whole of the employment relationship from financial rewards to pride, appreciation, challenging work and fun, leader relations and involvement. With this very broad definition, total reward comes to resemble much of HR management but places emphasis on the delivery, a great deal of which is done by line managers.

We use a slightly more restricted definition of reward here, while accepting the logic of total reward, with its

emphasis on behaviours and therefore the role of line managers. We ask: 'What triggers or levers can line managers use to incentivise and reward their staff?' Once we can identify these, we can see how well and how extensively they are used and how easy they are to deploy.

The distinction between extrinsic and intrinsic is useful. In extrinsic rewards, we looked for evidence of line manager roles in setting starting salaries, determining variable, especially merit, pay, recommending bonus payments on a regular basis, or giving special or ad hoc bonuses, sometimes called honorariums, where the symbolic value exceeds the cash incentive, and in promotions, especially where these are merit- rather than vacancy-driven.

In all cases, these extrinsic rewards are controlled and incorporated within the design of the payment system. They are tools given to line managers to use and account for. Their use tends to be surrounded by rules and systems, and line managers are rarely able to use them without the approval of higher authorities. Not surprisingly, this often causes frustration.

On the other hand, the distinguishing characteristic of intrinsic rewards is often that, in the main, they are tools for line managers to use as they wish and don't necessarily need to be accounted for. They just happen as part of 'normal' organisational life and are sometimes 'invented' by the managers themselves. Here, decisions on job allocation, the reward of time (for example, to work from home or have some time away from normal duties), access to training, and recognition, which might help develop a sense of job security, are often used. Some small-scale rewards are mainly symbolic in value but are provided by the employer for line managers to use, such as mini awards (a team lunch or picnic), or a bottle of champagne or a 'goodie box'. We review below how they are used.

# Determinants of reward: the importance of context

These management roles in reward vary considerably from firm to firm in much the same way as the overall design of the reward system does. There were three dominant influences in the cases we examined and there is cause to assert that these influences will be more generally important across the economy.

First, there is the influence of ownership. Two of our case study organisations are in the public sector. One is within the Ministry of Defence, the Defence Logistics Organisation/Defence Procurement Agency (DLO/DPA, see pages 21–22). The other is Wiltshire County Council, where we focus especially on corporate services and ‘head office’ functions. This has two consequences for reward systems.

First, each is subject to current restrictions on public expenditure, which places emphasis on cost reduction. It means that the design features of reward systems are influenced by the need to reduce costs and achieve consistency of practice, and it’s this imposition of change from outside the organisations – in this case, from Whitehall – that contributes to a lack of ownership and some resentment on the part of line managers. For example, the decentralisation of people management to the line, if viewed purely as a cost-cutting exercise, tends to be seen as an imposition rather than an opportunity for line managers to improve their leadership roles.

Second, both organisations have a long tradition of public service and internal equity, which influences their experience of performance-related pay or of individualised performance management. This has influenced the design of reward systems and the pace of introduction. In Wiltshire County Council, for example, it was suggested that there was no culture of performance and so a new performance-related pay system would need to contribute to culture change in line manager roles. This has made the design and implementation process more difficult.

Ownership is an important context elsewhere. John Lewis Partnership (John Lewis) is co-owned by the employees, the ‘Partners’, and has a highly inclusive culture (see pages 19–20). Standard & Poor’s (S&P), part of the McGrawHill group of companies, is US-owned, and the fundamentals of HR policy and practice are determined in the New York headquarters (see pages 17–18).

Wincanton is a rapidly growing logistics company. Growth by acquisition means that it’s not possible to place everyone on the same terms and conditions of employment, although there is a holistic HR strategy and framework that effectively defines the minimal acceptable standards to be adopted. In the part of the company we studied – warehousing – trade union membership is high and collective bargaining is used in the determination of formal reward systems.

The second contextual factor is the influence of different types of employees. We showed in the earlier research how different types of employees have different needs and respond in different ways to HR policies, with an obvious need for different types of HR systems, including rewards for different types of employees (Kinnie et al 2005).

In this research, Wincanton operates, among other ventures, distribution warehouses that employ relatively large numbers of manual workers, some being recent immigrants from the accession countries. We deliberately looked at two of these warehouses as they differed one from another. One operated on a cost-plus contract with a major client, while the other had a fixed-price contract and costs could not be passed on. This influences the scope for reward. A fair number of temporary workers were on site and, for them, one of the biggest rewards was to be offered a ‘temp to perm’ contract – going from a temporary contract to a permanent one.



The experience at Wincanton is very different from that of customer-facing staff in the John Lewis department store we studied. These staff are expected to be responsive to customer needs and can be the subject of the 'mystery shopper'. Both line managers and the organisation are looking to reward and encourage appropriate staff behaviour and this influences what managers can do.

Elsewhere, the employees tend in the main to be knowledge workers whose competencies are crucially related to the achievement of the organisation's goals. Knowledge creation, learning and sharing are key attributes of employee behaviour.

The third context is the need to differentiate between different groups within the same organisation, for example, between the military and civilians in DLO/DPA, and between core staff – the analysts – in S&P and support staff, who possess enabling competencies.

This distinction has a major impact on the types of rewards used for each group and the role of line managers. It means that different systems have to co-exist within the same firm. An added feature of the S&P case is the very hot labour market for analysts working in the City of London. Effective reward management is crucial in order to recruit and retain these staff and maximise their value through motivation. The reward systems' design and the role of line managers within them therefore vary substantially according to context. However, there are some general principles about the role of line managers emerging from our evidence. These are considered next.

# Line managers' involvement in reward

The literature on line manager involvement in reward is largely limited to their influence in performance-related pay but, if we take a much wider definition of reward, as outlined earlier, and more fitting with the notion of 'a bundle of returns offered in exchange for a cluster of employee contributions', as defined by Bloom and Milkovich (1992), our research shows a much wider involvement encompassing many aspects of reward, however you categorise it – financial/non-financial, extrinsic/intrinsic, official/unofficial. We chose to look at them in the simplest way – financial and non-financial.

## Financial rewards

The most obvious way line managers can influence reward is through merit pay – linking pay increases to performance ratings. Three of our organisations operate such a system and a fourth (Wiltshire County Council) is considering it, which confirms the continuing popularity of such schemes.

However, the method of operating performance-related pay vary. In John Lewis and S&P, performance-related pay increases are added and this is included or consolidated into personable pay. Whereas, in the DLO/DPA, performance-related pay is paid as cash bonuses and is therefore non-consolidated.

In all cases, the role of the line manager is critical to effective implementation. As ACAS (2003) points out, it's the line manager who has to set and explain the standards of performance and behaviours required, clarify the aims of the scheme, make decisions about assessment, communicate the decision to staff and defend any judgements made between levels of performance.

But there is clear evidence of difficulties here. Managers often find it hard to differentiate, they may lack ownership of the outcomes when the final decision is taken out of their hands, as in the DLO/DPA, find it time-consuming and bureaucratic, adding to what

may already be a heavy workload. Most schemes use a forced distributions method for limiting the number of above-average awards and to control costs, and a clear majority of employees have a standard award for 'target achievement'.

In some cases, managers are just not good at conducting appraisals, perhaps because they dislike having that 'difficult conversation', or lack training and skills. So, not surprisingly, the system can easily fall into disrepute, with allegations of unfairness or a lack of transparency, and can come to be seen as a lottery, as other studies confirm. However, all the managers we interviewed seemed to accept the principles of performance-related pay (including those in organisations where there was no such system), sharing the view that it had the potential to improve motivation, reward high performance and provide a fair basis for pay determination.

At the same time, there was recognition that improvements could be made partly in the area of line management ability and skills through more careful selection and training, but in other ways too, as illustrated by John Lewis, which is striving for greater fairness, consistency and transparency in its new reward structure, and the DLO/DPA, which is also reviewing its scheme.

One of the most common ways line managers can give financial rewards is through special bonuses for work well done or skills gained. These include spot or ad hoc bonuses, honorariums (Wiltshire County Council) and, at S&P, promotions based on merit. The size of these rewards varies, but they are, nevertheless, important ways that line managers can provide positive feedback. For example, at S&P, awards can range from £500 to £5,000 for one recognition programme, at DLO/DPA, they can be up to £2,000, which can be for qualifications gained (such as an MBA) as well as noteworthy performance.

Recognised as part of the reward strategy or policy, these forms of recognition are normally subject to rules and restrictions that limit line managers' discretion. For example, the sum may be limited to a percentage of the pay bill, might only apply to certain staff (in the Ministry of Defence, these rewards only apply to civilians) or must be approved by someone higher up. They are certainly not mandatory and in all organisations implementation varies – some managers use them, others don't. In such circumstances, these schemes can sometimes be divisive and can cause frustration to both the line manager and their staff. Some find the small amounts they can offer 'derisory' and prefer not to use the scheme.

Another potential area for influence over financial reward is starting salaries. But there was very limited evidence of line management control here, other than occasionally being able to recommend additional pay if a job is hard to fill. This was the case in the DLO/DPA.

### **Non-financial rewards**

Non-monetary rewards are also much in evidence at both the individual and team level. Like financial bonuses, they provide the opportunity for line managers to make a symbolic gesture, are discretionary but have the added advantage of giving more immediate feedback, often in a personal way. One such scheme, 'One Step Beyond', operates at John Lewis. Introduced as part of a carefully planned strategy to become a high-performance organisation, the scheme aims to reward individuals in a spontaneous and personal way by giving, for example, a bottle of champagne or a voucher.

The DLO/DPA operates a minor awards scheme offering non-cash rewards for teams or individuals, and S&P has the ACE programme of awards. Some organisations have 'employee of the month' schemes, which publicly acknowledge and reward the success of a team or individual.

In all the case study organisations, there is also evidence of managers rewarding staff in ways that aren't formally recognised as part of the reward strategy or policy. This is particularly evident in the two organisations where managers, in terms of the formal reward system, appear to have little discretion over reward – Wiltshire County Council and Wincanton.

At Wincanton, where pay levels are determined through collective bargaining, unofficial practices have been allowed to creep in as a means of influencing productivity. This includes intrinsic rewards such as job allocation, 'job and knock' – a practice that allows someone to leave early if a job is complete, flexibility around meal breaks and providing job security by offering a 'temp to perm' contract. During the World Cup 2006, a variety of incentives were used to encourage attendance at work, including spot prizes, raffles, money, and TV screens to watch the matches. Absence dropped to its lowest level ever.

At Wiltshire County Council, examples of these types of rewards or recognition include a team meal out, taking time off, working at home, and training and development opportunities. As one manager explained: 'I have limited influence over rewarding performance but there's more than one way to skin a rabbit, so those in my team who have done well will be rewarded in other ways, for example, through secondment, development, and access to training.'

Our mini case studies also provide further evidence of similar practices, many of which are intrinsic forms of motivation and relate to the job itself, such as giving more responsibility or discretion. Managers can also show recognition by listening to staff and praising good work, giving verbal praise such as 'well done' and 'thank you', or just a pat on the back. All the managers we interviewed recognised the need to do this, but most admitted to not doing it enough.

With the exception of merit pay, all these forms of reward and recognition, although often small in scale, are symbolic in value and have the potential to be powerful motivators. However, they can also be a source of frustration and can be divisive. The fact that they are discretionary means inevitably that the degree to which they are used by individual managers will vary. Also one person's recognition implies elements of non-recognition for others, so there will inevitably be winners and losers. Some of the pitfalls can be avoided when these types of informal awards are given to teams (for example, a picnic lunch or a social evening). A few managers we interviewed did this.

# Performance management systems

The performance management system is a key tool for managers in helping them perform their responsibilities in the area of reward. It provides the means by which performance-related pay and training and development needs can be identified. It also provides a means of achieving greater ownership and commitment from the line, and can strengthen relationships between the manager and their staff. Objective-setting and formal appraisal are at the heart of the system, with informal reviews taking place more frequently.

In DLO/DPA, the Ministry of Defence's performance management system is adopted and comprises three stages: start-of-year reporting, which covers objective-setting and targets, including agreeing training and development plans; a mid-year face-to-face development review and assessment; and an end-of-year assessment of performance and bonus recommendation. The performance management system in S&P is very similar.

Increasing use of competencies as a means of determining performance and development was evident in our case studies. This approach is especially useful in showing up areas for improvement and mapping out career paths. It also provides a language for feedback on performance problems. In John Lewis, six core competencies are translated into a range of behaviours ('don't want to see', 'want to see' and 'outstanding') and detailed examples are contained in a personal development folder using the organisation's own language. For example, 'is enthusiastic and committed' is illustrated by a range of behaviours such as 'is moody or bad tempered' (unacceptable), 'is positive and enthusiastic' (acceptable) or 'spreads enthusiasm within their peer group' (outstanding). In the DLO/DPA, training and development requirements and bonus recommendations are identified using a core competency framework and any relevant functional competency framework.

But not all managers are competent in these roles and, as previous research has noted (Purcell and Hutchinson 2003, McGovern et al 1997), there can be a wide gap between policy and practice that is partly attributable to poor line management behaviour. As already discussed, some managers lack the appropriate skills and find it hard to differentiate performance, or dislike having a 'difficult conversation'. Managers may resent the bureaucracy involved, find it time-consuming, or simply lack commitment.

Training managers is one way of overcoming these problems and, in the DLO/DPA, all managers who undertake development reviews must receive appropriate training. At John Lewis, support is provided on an ongoing basis by line management, coaching and training from personnel staff. Support can also be provided through the development of online systems that can help embed a performance management culture.

At John Lewis, a system known as 'PartnerLink' alerts managers when it's time to conduct a review. At S&P, the whole process of personal review and target-setting, peer review, manager reports and senior manager sign-off is online. Completion of the process is mandatory and monitored by the system, with reminders posted at key stages to ensure compliance. Active top management support and participation and a proactive HR role in key areas ensure that what could be a bureaucratic chore is, in fact, embedded and is central to the operation of the reward system.

# HR function

In 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's often reported that HR professionals have concerns about line manager competence in many aspects of people management, including reward. The CIPD's 2006 reward management survey, for example, showed that front-line managers' skills and abilities are perceived to be the main inhibitor to the successful implementation of a reward strategy.

In our interviews, we explored the role of the HR function in the design of reward policies and practices requiring delivery by the line and asked what factors were taken into account. What involvement do line managers have in the formulation strategy, and what is the role of the line in communicating strategy? But our research suggests these issues are often overlooked. Certainly, the line manager role in explaining reward systems can be complex and time-consuming, especially when new systems are being introduced, although managers are often provided with some form of training in conducting appraisal interviews, as explained earlier.

John Lewis, however, provides an excellent, and rare, example of involvement in both the formulation and communication of reward strategy. Line managers – and non-management partners – have the opportunity to be involved in the development of a new reward system through working parties looking at a range of issues such as performance measures, competencies, pay-banding working groups and the appraisal system. They also have a key role to play in communicating any new system to their staff and discussing the possible implications. This inclusive approach is very much part of the culture of the

organisation and, though time-consuming, John Lewis would argue that it reaps benefits in the long term, bringing greater acceptance and commitment to the changes.

The need to consult on people management policies and processes is also recognised at the DLO/DPA and this forms part of a review of the line management role that's currently being undertaken by the HR function (see below).

Central to the questions of HR support are issues concerning the fundamental role of the HR function and its structure (this is the subject of the much wider study commissioned by the CIPD on the changing HR function). Many of our case studies have recently undertaken a review of the HR function with a view to improving the way it adds value and delivers HR. Two of our organisations were influenced by the Ulrich model (Ulrich 1995, 1997), which advocates the adoption of HR shared services together with central technical experts and strategic business partners.

In the DLO/DPA, the recent move towards single-service delivery aims to encourage line managers to take on greater responsibility for people management in addition to improving consistency and efficiencies and simplifying processes. In conjunction with a business partner model, this affords personnel a more strategic role at business unit level and encourages a more proactive approach to people management on the part of line managers. This radical change is being phased in, with full implementation due in 2008.

But there are, inevitably, teething problems. Some line managers don't feel comfortable with the loss of the dedicated local personnel team – the 'personal touch', as one line manager put it. Though advice is still there, it's a phone call away rather than just down the corridor. There is a perception that line managers have

been 'dumped on', that their workload has increased and that they're doing the work of the HR function. Clearly, it will take some time for line managers to accept that people management is a key part of the job and for these changes to become embedded in the organisation.

An HR business partner model is also being introduced at Wiltshire County Council alongside centralisation of the personnel function as part of a radical review of the traditional personnel function, although it's too early to gauge reactions.

In contrast, John Lewis and Wincanton have retained a local personnel team that has a facilitating role and provides ongoing support and advice to the branch line managers, in addition to a divisional centralised support team.

S&P has a well-resourced HR function, in part because effective people management is seen as central to the achievement of business strategy, especially where competition for talent is too expensive. What's needed is to build rewarding careers in S&P specifically, and across McGrawHill generally. HR managers often work closely with line managers and senior managers in talent management, including reward decisions on merit pay, bonuses and promotion on merit.

HR professionals also have a role to play in measuring and monitoring how effectively line managers deliver their people management responsibilities, and the most common method of doing this is through the performance management system. Performance appraisals should pick up issues of effectiveness, and a number of organisations are piloting 360-degree appraisal for their managers (on a voluntary basis). In S&P, this is already a well-established practice and one that's seen by line managers as particularly beneficial. Used as a management development tool, feedback from staff, peers and managers gives an indication of how good managers are perceived to be in all aspects of people management.

A range of other tools is also evident. The DLO/DPA provides a self-assessment model for line managers.

The director of their 'People' team conducted a sample survey of line managers as part of his project looking at the role of the line manager across the Ministry of Defence. John Lewis has a variety of employee voice mechanisms that provide feedback, such as their journal, *The Gazette*, the Partner survey, departmental champions, the Branch Council and the Registrar.

Online systems can also help monitor and manage processes as well as providing management information. John Lewis and S&P have developed electronic systems for performance management.

Training is the most obvious way HR professionals can try and equip line managers to effectively deliver their people management roles. All of our organisations are increasingly active in providing management training courses and see them as key facilitators in improving the people management skills and abilities of line managers.

At Wincanton, a range of programmes are offered, some specifically directed at first-line managers such as 'Stepping Stones', a foundation programme for people with the potential to become managers. For managers, there's a management development programme, a module-based programme that also provides a strong support system, including an internal mentoring and coaching process.

Wiltshire County Council has recently introduced 'Manage2Lead', a training programme based on a framework of behavioural competences that seeks to address different learning styles by incorporating a range of teaching methods such as job coaching, mentoring, action learning sets, peer coaching, reflective practice, e-learning, training, workshops and seminars.

John Lewis is introducing a company-wide programme known as 'Horizons', which addresses the technical and leadership development needs of employees (known as Partners) from non-management to middle management roles.

Despite these initiatives, however, there are still clear gaps in managers' skills and abilities, which implies that the tools aren't always used, or are insufficient on their own. It's clear from our research that the degree to which line managers take on their people management responsibilities varies enormously, some do it willingly, others see it as a 'bolt on' to the job.

Few organisations seem to focus on the requirement to be a good 'people manager' in the recruitment process, where technical expertise is often the dominant requirement. Nevertheless, all recognised the link between the management of people and improved business performance. With this in mind, the HR function in the DLO/DPA is currently undertaking a review of the line manager role. This includes redefining the roles and responsibilities of a line manager and looking at how to improve systems and processes to support the line in delivering business objectives.

# Conclusions and implications

The twin aspects of line managers' people management activities – leadership behaviour and the application of HR practices – imply a symbiotic relationship. Line managers need well-designed HR practices in their people management activities in order to help motivate and reward employees and deal with performance issues and worker needs. The way, and the extent to which, line managers enact these practices is influenced by their leadership behaviour and that of senior management in establishing an appropriate organisational climate that supports, recognises and rewards people management behaviours.

Employees are likely to be influenced both by the HR practices they experience and by their managers' leadership behaviour. Such responses can be positive or negative. Poorly designed or inadequate policies can be 'rescued' by good management behaviour in much the same way as 'good' HR practices can be negated by poor front-line manager behaviour or weak leadership.

Our interim assessment from these limited studies in five very different organisations is that, while more attention is being paid to line manager roles in reward, seen especially in training and the design of performance management systems, the impact is modest. However, there are clear pointers to what makes an effective role for line managers in reward:

- Line managers need tools available to them to reward good performance. Much of their smaller-scale reward activity comes out of daily practice and is largely unregulated. Here, rewards can be symbolic in nature yet very highly valued because they're immediate, establishing the close link between performance and reward, and welcomed by those who gain them.

Typically, these rewards are about the allocation of jobs or tasks, development opportunities and the flexible use of time and place, as in periodic

home- or teleworking. It can take maturity and confidence for line managers to create and use these tools effectively, and senior management support is necessary. Here, 'reward' is intrinsic, as seen in behaviour. However, there are always dangers in these types of awards as people may perceive unfairness or discrimination in their allocation.

Peer review or 360-degree appraisal and employee attitude surveys where line manager effectiveness is rated do, however, provide reinforcement for good practice and a type of whistleblowing in relation to poor behaviour. This can become especially powerful when it's built into the performance management systems applied to line managers themselves.

- The more structured reward tools, like merit pay, bonuses and promotions, are inevitably tightly controlled and monitored since the consequences of loss of control through unbridled line manager freedom can be very damaging in terms of cost and emerging inequity. A surprising number of line managers don't understand the need for such controls, or choose not to because they can blame 'the system'.

This points to the need for line manager involvement in the design and communication of reward systems as happens in John Lewis. Line managers need to 'own' the system. The process of design and communication is therefore as important as the technical design itself. Remote head office compensation and benefits managers can be overly caught up in the design of the 'perfect' reward system and forget that implementation is a fundamental part of strategy.

- This focus on behaviour or processes is especially evident in one of our case study organisations, S&P. It's clear that, for all staff, but in particular the analysts, the use of a well-designed, online



performance management system with top management support, driven from the McGraw Hill headquarters in New York, is beginning to embed both a culture of reward management and the annual processes necessary for its success. This use of an embedded performance management system also means that reward is strongly linked to development and not seen as competing with HR processes, as is the case in some organisations.

- One of the hardest management problems to resolve is that relating to the role of HR professionals themselves. The twin trends of increasing line management responsibilities for rewards and the removal of the friendly, personal manager along the corridor, replaced by a service centre, as seen in the DLO/DPA but evident elsewhere, is often resented by line managers. A culture shift is necessary for this to work. But this takes time, as both of the public sector HR staff in our study were well aware.

The problem this can create is the removal of HR professionals from any involvement with line managers unless dealing with problem cases. It's therefore particularly interesting to note the practice in S&P of the 'talent manager' from the HR department, and other HR staff, working collaboratively with line managers and their 'practice leaders' on the formal review of teams and team members. This is part succession planning, part reward management and part learning and development. And it's valued not just by line managers but by the HR staff themselves. The danger of too much decentralisation to the line, and the development of online systems through a shared service model, is that it removes the 'human' from 'human resource' management.

# Background to the research

A CIPD research report, *Rewarding Customer Service?* (CIPD 2005b) shows a strong relationship between employees' satisfaction/commitment and their rewards, and that front-line managers are key in making this link. However, the CIPD's (2006) reward management survey found that most respondents don't rate highly the reward decision-making or communication skills of their line managers.

*Who Learns At Work?* (CIPD 2005a) also highlighted the fact that line manager support is a key facilitator of learning, and the CIPD (2006) learning and development survey found that the main change in approach to learning and training delivery in the past 12 months has been new programmes to develop the role of line managers.

The CIPD wishes to build on this research by examining the role of line managers in these two critical areas: reward, and learning and development.

# Case studies

## Reward management at Standard & Poor's, a McGraw Hill company

S&P, a division of The McGraw-Hill Companies, is the world's foremost provider of independent credit ratings, indices, risk evaluation, investment research, data and valuations. An essential part of the world's financial infrastructure, S&P has played a leading role for more than 140 years in providing investors with the independent benchmarks they need to feel more confident about their investment and financial decisions. The company is part of McGraw Hill, a major US-owned corporation better known as a leading publisher.

The fundamentals of HR policy are determined in the New York headquarters. A 'people strategy' was launched two years ago that gave enhanced responsibility to line managers for 'accountability and ownership'. This people strategy specifies a system of mutually reinforcing practices to deliver the requisite workforce and business outcomes. The three strands of the strategy are talent acquisition and development ('build over buy'), performance management ('focus on performance and growth') and rewards ('value performance and growth'), all linked to business strategy and with specified workforce outcomes.

Much of the process is IT-enabled with, at its heart, a performance management system, the PMP, designed to build a performance culture in an annual cycle, from goal-setting to end-of-year decisions on merit pay, bonuses and promotion decisions. It's estimated that 97% of staff, and their managers, complete the online PMP each year. There's a strong incentive to do this as no decisions on merit pay, bonuses or promotion can be made without completing the process. Active involvement of those in top management is evident in their completion of the process and the way the PMP is used to determine the performance and development needs of core staff.

S&P has a European network of offices, and the London office is located in the new financial heart of the City of London. It's surrounded by major international banks and financial institutions in a very 'hot' labour market. It can't compete directly in terms of salaries and bonuses in what's often seen as an inflated labour market, with bonus payments for a select few often alleged to be millions of pounds. The company's analysts, once fully competent, are highly attractive to these financial institutions and this puts pressure on the reward system for these core staff.

'Reward' therefore has to mean much more than just money in this market place if S&P is to recruit, retain and motivate its staff. There are several interlocking practices that help, and these can be summarised in four behaviours.

First, emphasis is placed on building talent from the recruitment of young, inexperienced yet able, staff. In terms of reward, this means that line managers are actively involved in job placement, design and rotation for team members. This can include seconding staff for developmental assignments in offices in Europe or the US. It's also these managers who sanction attendance at the many training courses provided by the company. The reward element here is the opportunity to learn, build a career and increase personal market worth. Much depends on line management support for this.

## Reward management at Standard & Poor's, a McGraw Hill company (continued)

Second, efforts are made to achieve a strong alignment between employee interests and enterprise strategy. While pressure of work can sometimes make this difficult, there is a strong emphasis on work–life balance. Line managers allow homeworking to complete a report or time off for medical or family reasons. And the company recently won an award for women's careers (2006 Times/Aurora Top 50 Places in the UK that Women Want to Work). It prides itself on being different from other companies in the city in this regard, seeing this difference as a market advantage. The active support of line managers is essential in achieving a meaningful work–life balance for their staff.

Third, the PMP has led to the widespread practice of annual discussions between team managers and their managers, known as practice leaders, about each team member. Sometimes, an HR manager joins the review meeting. The outcomes, beyond analysis of development needs and action, are recommendations on overall performance ratings ('breakthrough achievement', 'exceptional', 'target', 'requires improvement') and associated decisions on merit pay, competitive bonus awards, and promotions.

The use of promotion on merit, rather than driven by vacancies, is particularly noteworthy. In the past, more junior staff had expected to be promoted every 18 months or so and, while the speed of movement slows down the higher up you get, it's still an essential reward component. One team leader reported that, exceptionally, five of his seven reports were promoted last year. It does lead to an inflation of job titles. Each year, the names of those promoted are published in the *Financial Times*. Status is an important reward, but so too is the 12–15% salary increase that comes with promotion.

The final element is the recognition of exceptional performance or praiseworthy conduct. Special, ad hoc, bonuses can be awarded of between £500 and £5,000. There is also an 'ACE' programme where gold, silver and bronze awards can be given, with the expected publicity often found in American companies. Line managers are responsible for initiating both.

There are tensions in every company in managing rewards and linking these to the performance management system and the wider culture of the company. Some line managers in S&P find the PMP process over-engineered and others think the culture of balance between individual needs and work demands is being eroded, as in many other companies.

The continual pressure on salaries this year led to an exceptional decision for a mid-year salary review. This then exacerbated the tensions between the management of core staff, the analysts, and those in support functions with 'enabling competencies' like sales, accounts and HR itself. Here, bonuses are much lower, promotions on merit rare and the value of the PMP process is accordingly less obvious and can be seen as an imposition by New York HQ and the HR function. Talent management, including reward, focuses, not surprisingly, on the core business, the analysts, and it's here that the embedded nature of the performance management system and the active role of line managers at all levels are most visible and valued.

## John Lewis Partnership

### Background

Founded on the beliefs of John Spedan Lewis in 1929, John Lewis Partnership is the country's largest example of worker ownership, and one the UK's top ten retail businesses. All 64,000 staff are partners in the business, sharing in the responsibility of ownership as well as rewards. The Group comprises two operating arms – John Lewis department stores and Waitrose supermarkets. Our research centred on the John Lewis Solihull Branch, which opened in September 2001 and employs around 450 staff. In 2006, the branch achieved sales growth of more than 10%.

In recent years, John Lewis has embarked on an ambitious programme of modernisation and change in its drive to become a high-performance organisation while maintaining its commitment to being 'an employer of distinction'. The company argues that the way Partners feel about the employer brand is key in determining both Partners' happiness and the commercial success of the business. This programme has impacted on all areas of personnel management (John Lewis is keen to emphasise its preference for the term 'personnel' over 'human resources') and the roles of section managers and department managers, who were the focus of our research.

### Reward management

As part of the strategy towards becoming a high-performance organisation, John Lewis is introducing a new reward structure known as pay banding. Under the previous system, the link between pay and performance was tenuous, and poor scores for pay-related questions in the Partner survey, plus feedback from focus groups, suggested that Partners didn't feel properly rewarded for their contribution. In addition, an evaluation of performance indicated that some Partners were overpaid and others underpaid.

Pay banding seeks to overcome this by linking desired behaviours and the achievement of performance measures directly to pay, and aims to ensure fairness, consistency, clarity and openness. The structure also enables all Partners to map out a future path for developing their pay and careers. This was trialled in 2004 and is currently being phased in across all branches, with the aim of having the final structure in place in March 2010.

Integral to this is a performance management toolkit, which provides new job descriptions and a competency and appraisal framework by which performance can be measured. This is translated into a personal development folder that sets out a job description, performance measures and expected behaviours for individuals. The folder forms the basis of the annual appraisal with the line manager and contains clear examples of what counts as unacceptable, acceptable and outstanding behaviour.

Following a redefinition of manager roles, both section and department managers now conduct appraisals (previously it was the responsibility of departmental managers). The appraisal process is undoubtedly time-consuming – one appraisal can take up to three hours – but the new toolkit facilitates the process and, as one manager explained: 'makes it easier to manage'.

Annual pay increases and progression through the pay scales is dependent on this appraisal, and line managers have discretion to award increases within an affordable limit. All managers receive training on how to use the folder and conduct appraisals, and this is constantly being monitored. A new IT-based payroll and management system called 'PartnerLink' alerts managers when they need to conduct a review.

Early feedback identified some difficulties with section managers conducting the appraisals, including low-calibre objectives, short-term aims, and delays in completing the appraisals. As a result, all section managers

## John Lewis Partnership (continued)

went through a two-day training course, and, at the time of our interviews, personnel was about to do a 'performance quality check' on section managers. This includes observing all section managers putting together a development plan for their staff. It will be followed up by an extensive training programme called Horizons, to be launched company-wide next year, aimed at addressing the development needs of managers and non-managers, although it will initially be targeted at section managers, where the greatest need for development has been identified.

Line managers have other means by which they can reward partners. 'One Step Beyond' was introduced to support the company's efforts to become a high-performance organisation and is an opportunity to immediately reward Partners in a personal way. This could take the form of, for example, a bottle of champagne or taking a Saturday off, depending on the individual. As one manager said: 'It's about managers getting under the skin of the team.'

There are also additional small rewards based around the organisation values – known as 'PboP' (Powered by our Principles). And every 13 weeks, there's a quality award ceremony for the best-selling team, with winners receiving £250 towards a department event. Some managers also have a 'goody' box for immediate reward, if, for example, a customer compliments a Partner.

In keeping with its philosophy, John Lewis has involved Partners, including line managers, in the development and implementation of the new strategy, and this has ranged from joint consultation to extensive communication. When developing the new behavioural competencies, for example, rather than use consultants, a working party was set up comprising a cross-section of volunteers and personnel. It was through their work that six core behaviours were identified ('About me', 'Leading and developing', 'Vision and creativity', 'Team player', 'Passionate retailer' and 'Delivering results'), and these now provide the framework by which performance is measured. One senior manager explained: 'People like it because it uses our own language.'

The implementation programme included an extensive and structured communication timetable, individual discussions, support and review. Section managers and department managers were seen as key to this process and are expected to communicate the pay-banding proposals to their partners, review their grading (which are initially set by personnel) and discuss the possible impact.

Most of these initiatives come from divisional central personnel, but there's also a key role for personnel to play at branch level. Here, managers are supported by a small personnel team comprising two distinct functions: personnel procedures, and training, learning and development. The personnel manager sits on the branch steering group and has a branch responsibility. As the personnel manager explained: 'This helps embed the support of managers.' In terms of the new reward structure, personnel have to make sure the ground is prepared and that departmental managers understand the proposals so that they can brief their own staff and providing ongoing support.

A number of mechanisms help monitor the implementation of the new strategy. These include the Branch Council (elected by partners), which can make its views known at operational level and higher up through a system of branch forums. Employees also have a voice through the Partner survey (results can be drilled down to manager level within each branch), the internal magazine, *The Gazette* (which, in addition to providing business performance information, allows Partners to send anonymous letters, which can contain criticism of the people and the business and have to be answered within 21 days), department champions, and the Registrar, who is independent of the branch and addresses issues of confidentiality.

## Defence Logistics Organisation and Defence Procurement Agency

### Background

The DLO is part of the UK Ministry of Defence, with responsibility for supporting the armed forces throughout various stages of an operation or exercise, from training, deployment, in-theatre training and conduct of operations, through to recovery and recuperation ready for redeployment. With its headquarters in Bath, the organisation employs around 20,000 staff at around 80 locations throughout the UK and overseas (in 2006).

The DPA provides new equipment for the armed forces and provides other procurement-related services to its customers. In 2006, it employed 5,400 staff, of whom around 1,800 are scientists and engineers.

Both organisations comprise a mixture of civilian and military staff, although most are civilians (75% in the DLO, 81% in DPA) and these were the focus of our research. Our interviews took place at a number of locations, including Abbey Wood in Bristol, and Corsham, Plymouth, and Foxhill. In November 2006, it was announced that the DLO and DPA were to merge.

### Reward management

The principles of the reward strategy are set centrally by the Ministry of Defence, and pay for civilian staff operates around a broadbanding structure with spine points. Line managers have limited influence over the starting point of staff, although, under certain circumstances, they can make recommendations for special grades that are hard to fill. Additional allowances can be added to take account of other factors such as relocation, skill, and so on, but this is at the discretion of HR, and the line manager may not be aware of these amounts.

Line managers can, however, reward their staff in a number of ways, both financially and non-financially. One of the primary means is by recommending an annual (non-consolidated) bonus based on performance, and this can, potentially, be a significant sum of money. Performance is assessed using the Ministry of Defence performance management system and must be evidence-based, and recommendations by line managers are considered by a 'cluster panel' made up of senior managers and an independent observer who make the final decision.

A forced distribution system operates, which means that 67% can receive the bonus (increased from 50% when first introduced in 2001/02). However, with most managers rating all their staff well, it's those on the cluster panel who have the difficult task of deciding who should receive the bonus. As one manager put it: 'It's like looking for angels in pinheads.'

There are other difficulties with the scheme as well. Although all managers have undertaken training and should be competent in the use of the performance management system and in conducting performance reviews, the quality of reports (which are now done electronically) is variable and, if a line manager doesn't have good writing skills, this can be to the detriment of the appraisee.

It's therefore not surprising that the process of bonus allocation is perceived by staff as a lottery – divisive, and a cause of frustration for all. Line managers can make recommendations but have limited influence and thus feel disenfranchised, yet they have to explain the outcome of the process to their staff. One line manager explained: 'I have to pick up the pieces ... it's especially hard when people work together in a team as some get the bonus and some don't – it pulls the team apart.'

## Defence Logistics Organisation and Defence Procurement Agency (continued)

But staff seem to recognise this: 'Individuals don't hold it against the line manager as they know the ultimate decision rests elsewhere' ... 'with the majority being recommended for a bonus, at least they're recognised by the line manager.' These problems are not uncommon with performance-related pay, particularly where forced distribution is in operation, and are openly acknowledged in the Ministry of Defence, where the scheme is currently under review.

There are other, less emotive, ways by which a line manager can reward and recognise staff. A special bonus scheme is available (up to £2,000, limited to a fixed percentage of the pay bill) for, for example, work done especially well, or for qualifications gained (for example, an MBA). There's also a minor awards scheme offering non-cash gifts – such as vouchers, flowers, or a meal – that line managers can use to reward individuals or teams.

However, all these rewards (including individual performance-related pay) are only available to civilians and can cause potential difficulties when managing both civilians and military staff – although it's recognised that the military are compensated in other ways. Rewards that are available to all staff, and at the discretion of managers, include providing development opportunities, business unit commendations, flexible working (including homeworking) and (in the words of one interviewee) in 'how good the job is'. This could, for example, include job discretion, travel abroad and access to qualifications. There's also recognition in the form of 'thank you's and 'well done's. However, in common with all our case study organisations, implementation varies.

The way the HR function supports the line in the delivery of these people management responsibilities has undergone a radical change in recent years following a review of HR delivery in 2002. Support now comes in two forms.

First, the HR function is moving to a single-service delivery model, which is being phased in by April 2007. The drivers behind this were not only to encourage line managers to take greater responsibility (reinforcing the view that managing people is a crucial part of their job), but to ensure consistency (devolution to business units in the 1990s had resulted in inconsistent application of HR policies and procedures) and improve efficiencies. Single-service delivery is provided through two means – the People, Pay and Pensions Agency, which aims to provide advice through a 'one-stop shop' for HR services, and the People Services Portal, which is intranet-based and outlines rules, processes and guidance.

Second, a business partner model operates enabling HR personnel to play a more strategic role in top-level business areas and line managers to take a more proactive role in the area of people management. However, the downside for many line managers is the loss of the local personnel teams (referred to as the 'pink and fluffies' by one manager we interviewed), and increased administration. At the time of our interviews, many managers viewed the changes with some scepticism. All mourned the loss of a dedicated personnel office down the corridor and felt they had been 'dumped on'. However, given the enormity of the change and the fact that the processes are still being rolled out, this is perhaps not surprising.



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## Note

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