



# HOW THE STRUCTURE OF PAY AND REWARD IMPACTS ON EMPLOYEE OUTCOMES

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IDEAS | PEOPLE | TRUST







# FOREWORD

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COVID-19 will forever represent a traumatic chapter in our history. The experience has led to billions of individuals trying to process what has happened, how they responded and what, ultimately, they believe is truly important to them as they live their lives. The global pandemic quickly affected the world of work. A day does not go by without hundreds of media headlines or thousands of conversations covering 'the war for talent', 'work life balance', 'culture'

and the importance of mental health and employee wellbeing.

I have long been a fan of behavioural economists such as Richard Thaler (author of Nudge) and Daniel Pink (author of Drive), amongst others; all of whom have consistently highlighted how important it is for organisations to blend qualitative elements of their people proposition with, the often easier to deliver, quantitative elements. This

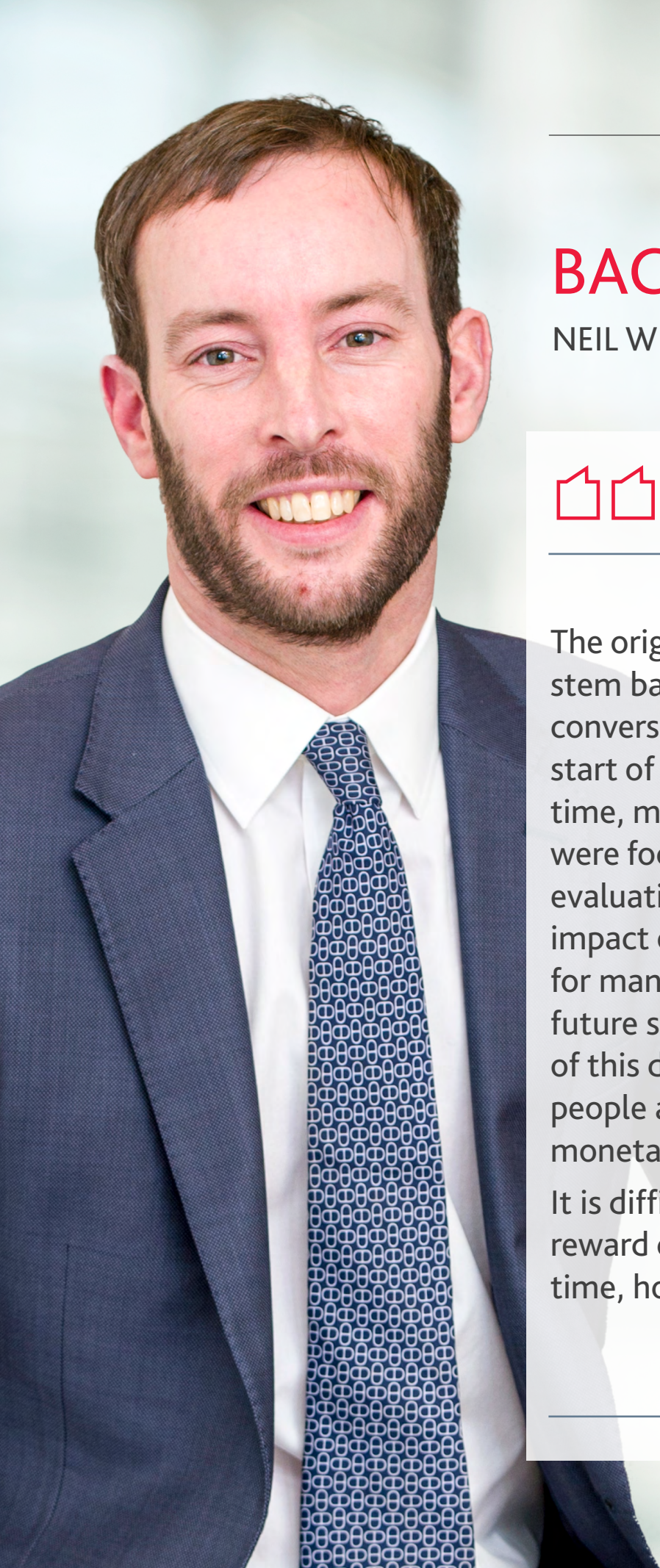
report brings together some incredibly powerful insights and provides suggestions on the areas businesses will need to focus on as we all learn to live in a post-pandemic world.

My own view is that the pandemic has fundamentally shifted how individuals - particularly those of us who have the luxury of choice - assess what is important to them. I firmly believe we are yet to fully process and appreciate what we have all experienced. In turn this means

that organisations across the globe will need to address and rethink their own people and employment proposition; it is an absolute priority and will take us to a place that some businesses may find difficult to recognise and accept.

Conversely, those businesses that are prepared to be progressive, engage, listen, acknowledge the benefits people place on autonomy and foster a culture of mutual trust will, in my view, succeed.





# BACKGROUND

NEIL WILLIAMS, TAX PARTNER



The origins of this paper stem back to a series of client conversations during the start of the pandemic. At this time, many business leaders were focussing internally, evaluating the expected impact of the pandemic and, for many, rethinking their future strategies. A key part of this debate and high on the people agenda is reward, both monetary and non-monetary. It is difficult to generalise the reward conversations at the time, however, it would be

fair to say that there was a full spectrum of outcomes; businesses who's incentive plans and bonus schemes were underwater and required a fresh start, and those that had accelerated to returns above expectations. The common question posed across the board was: how do we make best use of our reward strategy to get the best outcome we are looking for? In order for us to better answer the question, we commissioned The Behavioural Insights Team

(BIT) to conduct an evidence review of the literature related to the structure and design of pay and reward, as well as non-financial rewards. We are pleased that we have produced this practical and digestible framework for businesses leaders to make better use of their reward strategies. This paper firstly sets out the parameters for the research based on a series of outcomes. The findings are compiled into a decision framework that creates a simple reference

guide for the key findings and recommendations. The following sections set out the research in detail. Outside of the evidence based research, we also discussed in general how behavioural science concepts could influence behaviour. The final section provides a brief flavour of those discussions and an interesting insight into other areas which could be developed further in reward strategies.



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# 1. INTRODUCTION

The most common way to attract, retain and reward people - particularly in the private sector - is to use financial incentives including salaries, bonuses, leave or pension contributions.

Financial incentives can be powerful, but they are difficult to design well and can produce a myriad of unintended consequences<sup>1 2</sup>.

On their own, financial incentives rarely lead to increased effort and performance. The best way to retain and motivate employees is likely to be through a combination of conventional financial incentives and non-financial incentives, such as letting staff know that they are appreciated or offering more flexible working.<sup>3</sup>

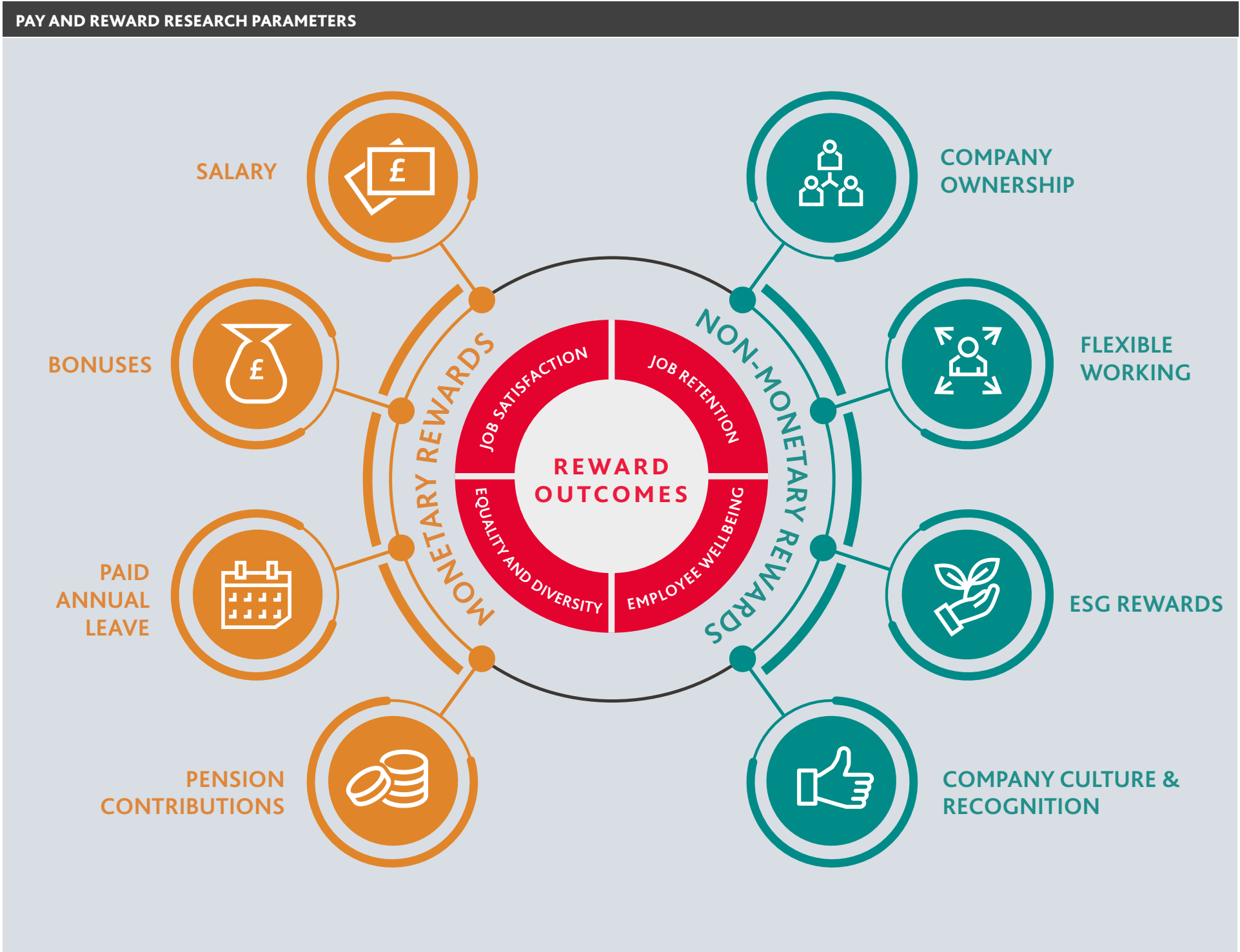
Although we know a lot about these different incentives - both financial and otherwise - we know far too little about their potential impact on job outcomes, particularly those not focused directly on performance such as job satisfaction, intention to leave, employee wellbeing and diversity and inclusion.

For the purpose of this review, pay and reward was broken down into base salary, bonuses and dividends, paid annual leave allowance and pension contributions. Non-monetary benefits included company ownership, recognition, flexible working, unpaid leave, private health insurance and Environmental, Social and Governance (ESG) focused rewards. We have narrowed the scope to focus specifically on the following subset of outcomes: job satisfaction, job retention, equality and diversity, and employee wellbeing. This review considered evidence from different employment contexts, and different countries, and includes employees at all levels of seniority.

1 Ryan, R. M., & Deci, E. L. (2000). Self-determination theory and the facilitation of intrinsic motivation, social development, and well-being. *American psychologist*, 55(1), 68

2 Gneezy, U., & Rustichini, A. (2000). A fine is a price. *The journal of legal studies*, 29(1), 1-17.

3 Milkovich, G.M. & Newman, J.M. (2004). *Compensation*. 8th Edition, Irwin McGraw-Hill, Burr Ridge.





# 1. INTRODUCTION

To provide a comprehensive and concise summary of existing research, this report has drawn primarily upon academic literature, prioritising findings from meta-analyses and systematic reviews where they are available. However, for the sections on non-monetary benefits, particularly with regards to effects on equality and diversity, and employee wellbeing, there is a significant void in academic research, meaning the conclusions were drawn mostly from grey literature, such as non-government organisations and blogs on business, management and careers.

In this report, we present our findings for each incentive in turn. We first discuss financial incentives, beginning with salary and bonus incentives before we discuss the more limited evidence on leave allowance and pension contributions. Finally, we discuss non-financial rewards, such as company ownership, recognition and flexible working.



## Changes as a result of COVID-19

COVID-19, and subsequent social distancing measures, introduced significant changes to ways of working, many of which are likely to have a long-lasting effect. For instance, many organisations transitioned to full remote working in late March 2020 - and 18 months on, rates of homeworking remain higher than before the pandemic. Recent analysis from the Office of National Statistics (“ONS”) of business and individual attitudes towards the future of homeworking show that 24% of businesses intend to use increased homeworking going forwards, while 85% of adults currently homeworking want to use a ‘hybrid’ approach in the future<sup>4</sup>. These changes may impact future decisions by employers on their pay and reward frameworks. In particular, post-COVID-19 employment shifts raise questions such as whether and how employers should adjust pay for permanent remote workers, or staff working internationally; how employers can make hybrid working effective; and how employers can ensure there are no adverse impacts for different groups. Much research has been undertaken since the pandemic to examine trends and preferences regarding work location



and hours, but given the rapid and somewhat unpredictable nature of change as a result of COVID-19, it may be too early to understand its full impact on this topic.

<sup>4</sup> Office for National Statistics. (2021). Business and individual attitudes towards the future of homeworking. [Link to article.](#)



## 2. EMPLOYER DECISION FRAMEWORK ON PAY AND REWARD

The following framework is based on our in-depth literature review, outlining key recommendations to help your business consider and implement constructive changes and improvements in order to make the most of your pay and reward strategy.



### MONETARY REWARDS SALARY

#### KEY FINDINGS

**Transparency about fair processes supports job satisfaction and equality**

Employees are more satisfied with their job and pay if they feel that their peers' earnings are similar to their own, and that both their salary and the process by which this salary is determined are fair. Lack of pay transparency can also drive gender pay gaps.

**Individual differences and motivations determine the relationship between job satisfaction and salary**

Different types of employees may place different amounts of value on monetary rewards. For example, for employees who are extrinsically motivated, higher pay increases job satisfaction. Younger employees may also place higher value on pay than older employees.

#### KEY RECOMMENDATIONS

**Ensure clear, transparent and honest communication with employees on salary**

- ▶ Focus on the process by which salary is determined, including how the salary relates to performance or responsibility, and what it takes to get to the next pay grade
- ▶ Benchmarking information can also be shared. Paying the going rate in a particular labour market could offer reassurance that the salary on offer is fair
- ▶ Pay transparency is a way to reduce an organisation's gender pay gap. Being clear about what pay is available, and whether negotiation is acceptable, can also lead to fairer salaries for women.



**Explore and understand individual differences in people's values and motivations to determine the most effective approach for incentivising staff**

- ▶ Consider conducting a survey on motivations and reward preferences to better understand what employees really value, for example whether they are more motivated by intrinsic rewards like the desire to learn something new or by extrinsic rewards like financial incentives.
- ▶ Consider offering a combination of monetary and non-monetary rewards (eg more training opportunities, recognition, paid leave) rather than cash alone, and offering choice as to which incentive the employee can select.
- ▶ Pay schemes should always be fair and transparent and in compliance with legal regulations in relation to age discrimination (such as the Equality Act) - with the total value of the package remaining equal for equal roles.



# 2. EMPLOYER DECISION FRAMEWORK ON PAY AND REWARD



## MONETARY REWARDS SALARY

### KEY FINDINGS

**For staff retention and wellbeing, it's not only about pay**

Pay is an important, but not the most important factor in employee wellbeing and retention; factors such as stress at work, relationships with managers and work-life balance are equally, if not, more important.

### KEY RECOMMENDATIONS

**Collect good data on the factors that most affect employee retention and ensure HR have an evidence-based understanding**

- ▶ A survey among current employees could be used to explore the factors that affect employee retention and to identify high-risk groups of employees and trends over time
- ▶ This data should provide direct indications of how to improve staff retention and be fed into HR practices and policies regarding the retention of employees
- ▶ Well-structured exit-interviews can be used to explore factors affecting employee retention, although post-rationalisation can affect responses and so they should be treated with a degree of caution.

**Consider the structure of pay scales and other factors such as stress at work and work-life balance to address employee wellbeing**

- ▶ Carefully considering the structure of pay scales, so there is less difference between the lowest and highest salaries within a pay band, is likely to improve employee wellbeing
- ▶ Addressing factors such as stress at work and work-life balance are more likely to improve employee wellbeing than absolute pay.



## MONETARY REWARDS PAID ANNUAL LEAVE

### KEY FINDINGS

**Paid leave helps employers to attract and retain employees**

This is especially true for women and others in minority groups.

**More leave is not always better when it comes to job satisfaction**

Offering more annual leave may not increase job satisfaction, and unlimited leave can backfire in that it reduces the amount of annual leave taken overall.

### KEY RECOMMENDATIONS

**Ensure that paid leave entitlements are present on job-adverts to attract diverse talent**

- ▶ Employees highly value paid annual leave when looking for work - and so this should be highlighted on job adverts
- ▶ Expanded parental leave offers should also be made clear externally (on job adverts) and internally to attract and retain diverse talent.

**Managers should make sure everyone is clear about their company's annual leave policy**

- ▶ Thus reducing confusion over how many days off employees can and cannot take.

**Managers should encourage their team to take time off, such as by**

- ▶ Offering flexibility
- ▶ Modelling behaviours themselves by taking advantage of their own time off.



# 2. EMPLOYER DECISION FRAMEWORK ON PAY AND REWARD



MONETARY REWARDS  
BONUSES

### KEY FINDINGS

**Rewarding group-based performance may be more impactful for wellbeing**

Group-based performance and prosocial bonuses\* may have a larger impact on wellbeing than individual-performance based bonuses.

**Bonus schemes need to be fair to support retention**

The more employees in an organisation that are awarded a bonus, the more likely this is to have a positive effect on employee retention.

### KEY RECOMMENDATIONS

**Consider implementing prosocial bonuses to improve employee wellbeing. \*Prosocial bonuses include donations towards charities or sharing rewards with colleagues, eg. team social activities.**

- ▶ It is important to give employees the choice of how or if they participate in such activities (eg, providing a range of charities, allowing them to opt-out of activities with colleagues) so as not to counteract the positive effects of prosocial activities.

**Consider making bonuses available to all employees to facilitate job retention**

- ▶ Track what proportion of staff receive a bonus. If it is only available to a small number of employees this may have a negative impact on employee retention.



MONETARY REWARDS  
BONUSES

### KEY FINDINGS

**Bonuses are more effective at increasing job satisfaction in some groups**

Bonuses may increase employee satisfaction, particularly for men and those in higher paying occupations who may have higher monetary motivation. Bonuses are most effective when at least 25% of an individual's salary.

### KEY RECOMMENDATIONS

**Be mindful of factors such as an employee's gender or bonus size. These may affect whether bonuses improve performance and job satisfaction**

- ▶ For example, the higher the size of the bonus payment, the more likely it is that it will lead to higher job satisfaction
- ▶ Providing employees with the information and flexibility to tailor their benefits packages based on their individual requirements, is likely to improve job retention
- ▶ However, be wary of 'choice overload' - as behavioural evidence indicates that having too many choices can make decisions more difficult and can lead to suboptimal choices.





## 2. EMPLOYER DECISION FRAMEWORK ON PAY AND REWARD



MONETARY REWARDS  
**PENSION  
CONTRIBUTIONS**

KEY FINDINGS

**Pensions may be more important for attraction than satisfaction**

Employer pension contributions are a benefit that is greatly valued by employees, but may be more important for attraction than for ongoing job satisfaction.

**Default contributions will not be enough for many employees**

More than 90%<sup>5</sup> of eligible UK workers stick with the default pension scheme they are automatically enrolled in. However, most employed workers need to save more than the default contributions to save for retirement.

5 Institute for Fiscal Studies. (2020). Automatic enrolment - too successful a nudge to boost pension saving? [Link to article.](#)

KEY RECOMMENDATIONS

**Emphasise pension contributions in job postings, especially if they are generous**

► Such emphasis and transparency will attract applicants of all ages.

**Provide clear information to employees embarking on, or returning from, parental leave, as well as any staff changing from full to part-time working hours**

► This information can also encourage staff to discuss and reflect on their pension choices, fully informed about workplace contributions given changing circumstances.

**Encourage employees to increase their pension contributions when their financial circumstances change - for instance, defaulting payments from completed student loan repayments or childcare vouchers that are no longer needed to pension payments**

► Employers could pinpoint times when employees will have more disposable income, including any bonuses or pay rises, and encourage investment in a pension.



MONETARY REWARDS  
**PENSION  
CONTRIBUTIONS**

KEY FINDINGS

**There is a gender pension gap**

This is driven by a range of factors, with divergences in pension participation rates between men and women broadly mirroring the gender pay gap which suggests that women may change their saving behaviour around the time they become mothers.

KEY RECOMMENDATIONS

**Encourage employees to consider whether their default pension contributions are right for them**

► We tend to align with default options, but universal defaults may not be right for everyone - particularly for those who cannot afford to save right now, or those who may need to save more for a comfortable retirement.





# 2. EMPLOYER DECISION FRAMEWORK ON PAY AND REWARD



## KEY FINDINGS

Flexible working is desired by employees and jobseekers, but it is rarely offered by employers on job postings

87% of UK full-time employees either work flexibly already or wish they could. 93% of jobseekers want to find a job that allows them to work part-time or flexibly in some way.

However, the proportion of jobs advertised with flexible working options remains low - at 22%. This data is likely to have changed particularly in 2021 when we witnessed more employers openly promoting their flexible working policies particularly in industry or even national press. Offering flexible work can support gender equality but outcomes for different groups need to be monitored.

## KEY RECOMMENDATIONS

Employers could increase the number of female applicants by advertising all roles with flexible working options

- ▶ Flexible working appeals to both men and women, and is a proven way to attract more senior female applicants
- ▶ Men may be encouraged to work flexibly through senior role models.

Employers should be aware of issues related to flexible working

- ▶ Employers need to monitor for the emergence of differences between different groups to analyse how taking-up flexible working impacts on recruitment, hiring and progression of staff within the organisation. If gaps do emerge, employers need to explore the causes of such differences.



## KEY FINDINGS

Flexible working is associated with higher job satisfaction, employee retention and wellbeing

## KEY RECOMMENDATIONS

Managers should discuss flexible working options with both new and current employees

- ▶ These discussions should outline the types of flexible working options that the company can offer (in terms of working hours, location of work, etc.)
- ▶ Communicate that employees can choose the flexible working arrangements that will best work for them. This is important because needs related to flexible working vary considerably from person to person.





## 2. EMPLOYER DECISION FRAMEWORK ON PAY AND REWARD

<div><div>NON-MONETARY REWARDS COMPANY OWNERSHIP</div></div> <div><div>KEY FINDINGS</div><div><p><b>Company ownership positively impacts job satisfaction and retention</b></p><p>Employees who have an ownership stake or the right to participate in the decision-making in the company they work for are more committed to the business, more satisfied with their jobs, and less likely to leave.</p><p>This is particularly true when ownership is combined with high-performance policies and fixed pay at or above market levels.</p></div></div> <div><div>KEY RECOMMENDATIONS</div><div><p><b>Consider whether an employee-owned structure is right for the business</b></p><ul style="list-style-type: none"><li>▶ Even if employee ownership is not right, organisations could consider implementing just three basic actions to increase employee involvement: i) encourage management to share financial information with all employees, ii) give all employees right to participate in the decision-making, and iii) treat everyone the same (eg by calling all employees 'partners', for example).</li></ul><p><b>Employee-owned businesses can further generate positive outcomes by investing in high-performance work policies, and offering fixed wages at or above market level</b></p><ul style="list-style-type: none"><li>▶ These policies, combined with employee ownership, lead to greater positive effects for job retention, loyalty, and staff effort.</li></ul></div></div>	<div><div>NON-MONETARY REWARDS RECOGNITION AND COMPANY CULTURE</div></div> <div><div>KEY FINDINGS</div><div><p><b>Recognition is crucial for satisfaction and job retention</b></p><p>Recognition of good work and expressions of gratitude, such as sending positive feedback around the office, can make a real difference to employees' sense of job satisfaction and retention.</p></div></div> <div><div>KEY RECOMMENDATIONS</div><div><p><b>Consider building moments of thanks into workplace routines</b></p><ul style="list-style-type: none"><li>▶ These can take the form of gratitude slots in meetings, sending positive feedback around the office, or even gifting employees with small financial rewards to be spent on others in their team</li><li>▶ Recognition is most effective when it is public, from people whose feedback matters and is communicated at timely moments (eg monthly performance meetings).</li></ul><p><b>Consider investments into client satisfaction and the communication of client feedback as a means to enhance employee retention</b></p><ul style="list-style-type: none"><li>▶ Positive client feedback has a significant impact on employee retention and therefore should be freely and plentifully distributed to employees, and negative feedback should be communicated carefully.</li></ul></div></div> <div><div>KEY FINDINGS</div><div><p><b>Company culture is a pivotal factor in retaining employees</b></p></div></div> <div><div>KEY RECOMMENDATIONS</div><div><p><b>Consider investing in a variety of factors to improve company culture which in turn will retain and attract employees</b></p><ul style="list-style-type: none"><li>▶ Factors including culture and values; career opportunities; quality of senior management; work-life balance; and compensation and benefits all contribute to overall company culture which has been shown to be a key factor in attracting and retaining employees.</li></ul></div></div>
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## 2. EMPLOYER DECISION FRAMEWORK ON PAY AND REWARD



NON-MONETARY REWARDS  
ESG REWARDS

### KEY FINDINGS

#### Reducing environmental impact may support retention of Generation Z employees

Whilst ESG issues are becoming increasingly scrutinised by stakeholders, there is limited research on the impact of ESG rewards on employees. However, younger employees may be more likely to apply to and continue working for companies that focus on reducing their carbon footprints.

### KEY RECOMMENDATIONS

#### Utilise ESG rewards to retain and attract younger (Generation Z) employees

- ▶ Highlight what your company is doing to support climate change in both external (to attract) and internal (to retain) communications.



NON-MONETARY REWARDS  
ESG REWARDS

### KEY FINDINGS

#### There is a widespread perception that greener funds don't perform as well financially as other funds

Overall, there is widespread support for ESG incentive schemes, however factors such as performance criteria relevant to the company and accurate measurement against performance criteria need to be carefully considered.

### KEY RECOMMENDATIONS

Clearly communicate the financial performance of green funds to mitigate concerns that green funds perform less well financially than other funds.

#### Move forwards with ESG incentive schemes but do so with caution and carefully consider factors such as:

- ▶ Ensuring performance criteria are relevant to the company;
- ▶ Ensuring sufficient research for accurate measurement against performance criteria.





# 3. MONETARY REWARDS

In this section we discuss financial incentives, starting with salary and bonus incentives before discussing the more limited evidence on leave allowance and pension contributions.

## 3.1 SALARY

### Context

The median annual household income in the UK, according to the most recent Office for National Statistics Household Finances Survey, is £29,000 for full time employees<sup>6</sup>. However, this number varies across sectors and genders, with employees in the private sector receiving 7.9 percent more than their public sector counterparts<sup>7</sup>, and men being paid 18 percent more than women<sup>8</sup>.

### Summary of key findings:

- ▶ Higher pay increases job satisfaction but only in employees who are extrinsically motivated, making it important to explore and understand individual differences in people's values and motivations within the organisation and to determine the most effective approach for incentivising staff
- ▶ Employees are more satisfied with their job and pay if they feel that their peers' earnings are similar to their own, and that both their salary and the process by which this salary is determined are fair
- ▶ Being transparent about the available salaries, and whether negotiation is possible, will help ensure women receive fairer pay
- ▶ Salary is a factor that affects employee retention, but not a primary one. Factors such as relationships with managers and work-life balance are more likely to influence employee retention than salary
- ▶ Pay is an important, but not the most important, factor in employee wellbeing; factors such as stress at work and work-life balance are equally, if not, more important
- ▶ Younger employees place a higher value on pay than older employees.



*The main key takeaway from the research, in the context of advising around gender pay gap reporting, is the continuing theme throughout of transparency with employees. For me this also must be about effective communication with employees. Genuine transparency will happen when employers shift from seeing gender pay gap reporting as a mere compliance exercise and view addressing the gender pay gap as a critical and integral part of remuneration policy and review. Building in communication and transparency (and education in some instances) to policies on pay and pension can only help in levelling the gender playing field and those employers who see this as a core element to their strategy will be the ones to reap benefits longer term.*



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6 Office for National Statistics. (2021). Average household income, UK: financial year 2020. [Available from ONS](#).  
7 The Guardian. (2020). Public-sector pay freeze will hit those earning less than private counterparts.  
8 Payscale. (2021). The State of the Gender Pay Gap in 2021. [Available from Payscale](#).



# 3. MONETARY REWARDS

## 3.1 SALARY

### 3.1.1 JOB SATISFACTION

Despite what is commonly assumed, salary is not the most important determinant of job satisfaction<sup>9</sup>. The results from a survey of Britain and 36 other countries across all geographic regions found that employees ranked salary third in terms of importance for job satisfaction, behind interpersonal relationships at work and having an interesting job<sup>10</sup>. A UK Working Lives survey with 5,136 employees similarly found that satisfaction with salary is only slightly associated with how happy they are with their job overall<sup>11</sup>.

In a meta-analysis of 92 studies, Judge and colleagues also found that the relationship between salary and job satisfaction is weak<sup>12</sup>. This weak correlation is the case across different countries, with no significant differences between US, India, Australia, Britain, and Taiwan<sup>13</sup>. CIPD research finds that individuals who receive a pay rise are more positive than those who experience a pay freeze or cut and that those towards the top of the earnings pile have greater feelings of pride, value and motivation than those towards the lower end<sup>14</sup>. However, the generally weak link

between salary and satisfaction can be explained partly by the fact that the link between salary and job satisfaction may only be present in those individuals who are especially motivated by external sources of reward<sup>15 16</sup>, but also that how an employee feels about their salary (eg whether it is fair) is more important than the exact amount they are getting paid:

#### Intrinsic versus extrinsic motivation

Salary increases job satisfaction for those who are extrinsically motivated.

An important factor in the relationship between salary and job satisfaction is a person's motivation - specifically whether it is intrinsic or extrinsic. Intrinsic motivation is doing an activity because it is internally rewarding (such as for the pleasure of learning something new or achieving something), rather than because of external factors<sup>17</sup>. Extrinsic motivation, on the other hand, is driven by external demands, encouragements or rewards<sup>18</sup>. For example, one study found that students with stronger extrinsic values, as measured by a questionnaire, demonstrated a stronger (positive) relationship between base salary and job satisfaction once they entered the labour market than their counterparts with stronger intrinsic values<sup>19</sup>. In another study, Cho and

Perry analysed real-world data from a representative sample of over 200,000 US public sector employees and found that when employees are focused on external rewards, employee satisfaction levels were higher with higher pay<sup>20</sup>. Additionally, Hofmans and colleagues surveyed nearly 600 employees in a variety of industries and found that extrinsic rewards - like money - increase job satisfaction, but only in employees who are extrinsically motivated, and not in those who are intrinsically motivated<sup>21</sup>.

This is important because if you assume that all employees are incentivised by higher salaries and financial rewards, you may find yourself inadvertently demotivating employees who are intrinsically motivated. In a pre-post trial with 600 US salespeople, Thibault-Landry and colleagues found that when a mixed cash and prize reward program was replaced with an equivalent value all-cash package, employee effort dropped dramatically, leading to a 4.36 percent decrease in sales that cost the company millions in lost revenue<sup>22</sup>. This can be explained, at least in part, by the fact that an all-cash reward is less rewarding and effective for intrinsically motivated employees.



9 De Neve, J. E., Krekel, C., & Ward, G. (2018). Work and well-being: A global perspective. *Global happiness policy report*, 74-128.

10 De Neve, J. E., Krekel, C., & Ward, G. (2018). Work and well-being: A global perspective. *Global happiness policy report*, 74-128

11 CIPD. (2019). Job Quality Index. UK Working Lives. [Available from CIPD](#).

12 Judge, T. A., Piccolo, R. F., Podsakoff, N. P., Shaw, J. C., & Rich, B. L. (2010). The relationship between pay and job satisfaction: A meta-analysis of the literature. *Journal of vocational behavior*, 77(2), 157-167

13 Judge, T. A., Piccolo, R. F., Podsakoff, N. P., Shaw, J. C., & Rich, B. L. (2010). The relationship between pay and job satisfaction: A meta-analysis of the literature. *Journal of vocational behavior*, 77(2), 157-167

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15 Hofmans, J., De Gieter, S., & Pepermans, R. (2013). Individual differences in the relationship between satisfaction with job rewards and job satisfaction. *Journal of vocational behavior*, 82(1), 1-9.

16 Malka, A., & Chatman, J. A. (2003). Intrinsic and extrinsic work orientations as moderators of the effect of annual income on subjective well-being: A longitudinal study. *Personality and Social Psychology Bulletin*, 29(6), 737-746.

17 Deci, E. L., & Ryan, R. M. (2000). The "what" and "why" of goal pursuits: Human needs and the self-determination of behavior. *Psychological inquiry*, 11(4), 227-268.

18 Mielniczuk, E., & Laguna, M. (2017). Motivation and training initiation: evidence from Poland. *Journal of Workplace Learning*.

19 Malka, A., & Chatman, J. A. (2003). Intrinsic and extrinsic work orientations as moderators of the effect of annual income on subjective well-being: A longitudinal study. *Personality and Social Psychology Bulletin*, 29(6), 737-746.

20 Cho, Y. J., & Perry, J. L. (2012). Intrinsic motivation and employee attitudes: Role of managerial trustworthiness, goal directedness, and extrinsic reward expectancy. *Review of Public Personnel Administration*, 32(4), 382-406.

21 Hofmans, J., De Gieter, S., & Pepermans, R. (2013). Individual differences in the relationship between satisfaction with job rewards and job satisfaction. *Journal of vocational behavior*, 82(1), 1-9.

22 Thibault-Landry, A., Schweyer, A., & Whillans, A. V. (2017). Winning the war for talent: modern motivational methods for attracting and retaining employees. *Compensation & Benefits Review* 49, no. 4: 230-246.



# 3. MONETARY REWARDS

## 3.1 SALARY



**Salary increases job satisfaction if it is similar to that of your peers:** A second important factor is how an employee's salary compares to that of their peers - what we refer to as 'relative salary'. For instance, a field experiment with 2,060 workers at a large, multibillion dollar commercial bank in Southeast Asia found that a higher perceived peer salary negatively impacts employee pay and job satisfaction, as well as tolerance for pay inequality<sup>23</sup>. Cullen and Perez-Truglia found that for every 1 percent higher salary a co-worker earned over

the employee's expectation, they worked 0.94 percent fewer hours, and the chances that they'd leave the company increased by 0.225 percent; however, the latter effect was not statistically significant<sup>24</sup>. Data from two UK surveys (representative of industry in the UK in terms of size and sector of business) also finds that if employees perceive their salary to be lower than that of their peers, their job satisfaction decreases<sup>25</sup>. Similarly, a randomised controlled trial showed that an employee discovering one of their peers made more money

than them made them highly dissatisfied with their jobs and increased the likelihood of them searching for a new job compared to those who did not know how much money their co-workers made<sup>26</sup>. However, those who could ascertain that they earned above the median did not report any higher satisfaction than those who did not receive the information. This suggests that receiving lower than average pay has a greater (negative) impact on satisfaction than receiving an above average salary<sup>27</sup>.

There are benefits to salary transparency. For instance, 'structural inequalities' are harder to hide when salaries are transparent<sup>28</sup>. If everyone knows everyone else's pay level, patterns of discrimination are easier to detect, and to remedy. A recent study found that making salaries transparent led to a 5 percent increase in the number of women working in jobs which paid above the market average.

The study also found that salary transparency led to a 2.8 decrease in men's hourly pay, reducing the gender pay gap by 15 percent<sup>29</sup>. This suggests that transparency in pay can be one way to improve gender equality in organisations.

### Perceived fairness of salary

**Salary increases job satisfaction if it is perceived to be fair:** Another key factor is the extent to which an employee feels that their salary is fair in relation to their peers<sup>30</sup>. A meta-analysis of 203 papers showed that the strongest antecedent of pay satisfaction was the perceived salary of others and how much effort they were perceived to put into their job. Pay satisfaction was strongly associated with the perceived salary as well as effort of employees both within the same organisation and those doing similar work but at other organisations<sup>31</sup>. The meta-analysis also finds that people who believe the process the manager used to make decisions about salary was fair - a case of 'distributive justice'<sup>32</sup> - experience significantly greater pay and job satisfaction<sup>33</sup>. A survey-based study of 2,867 public sector research workers in Australia also showed that workers who believed the company's processes were fair displayed a high level of job satisfaction<sup>34</sup>. Additionally, a field randomised controlled trial, where over 300 Indian seasonal manufacturing employees were randomly allocated to be paid less than their peers or the same as their peers, showed that productivity reduced by 22 percent and

attendance by 12 percent on average when an employee was paid less than their co-workers. However, the study found no negative effects of pay disparity where employees could easily see that their co-workers were more productive than themselves: this suggests that pay inequality in itself is not necessarily problematic - at least not if it is clearly justified<sup>35</sup>. The central idea that emerges from these findings is that people are more satisfied with their jobs when they are treated fairly, ie when both themselves and their peers get the compensation they deserve for the amount of effort they put into their job.

23 Cullen, Z., & Perez-Truglia, R. (2018). *How much does your boss make? the effects of salary comparisons* (No. w24841). National Bureau of Economic Research.

24 Cullen, Z., & Perez-Truglia, R. (2018). *How much does your boss make? the effects of salary comparisons* (No. w24841). National Bureau of Economic Research.

25 Petrescu, A. I., & Simmons, R. (2008). Human resource management practices and workers' job satisfaction. *International journal of manpower*.

26 Card, D., Mas, A., Moretti, E., & Saez, E. (2012). Inequality at work: The effect of peer salaries on job satisfaction. *American Economic Review*, 102(6), 2981-3003.

27 Card, D., Mas, A., Moretti, E., & Saez, E. (2012). Inequality at work: The effect of peer salaries on job satisfaction. *American Economic Review*, 102(6), 2981-3003.

28 Barnard-Bahn, A. (2020). *How to Identify — and Fix — Pay Inequality at Your Company*. Harvard Business Review

29 Duchini, E., Simion, S., & Turrell, A. (2020). Pay transparency and cracks in the glass ceiling. arXiv preprint arXiv:2006.16099.

30 Williams, M. L., McDaniel, M. A., & Nguyen, N. T. (2006). A meta-analysis of the antecedents and consequences of pay level satisfaction. *Journal of Applied Psychology*, 91(2), 392.

31 Williams, M. L., McDaniel, M. A., & Nguyen, N. T. (2006). A meta-analysis of the antecedents and consequences of pay level satisfaction. *Journal of Applied Psychology*, 91(2), 392.



# 3. MONETARY REWARDS

## 3.1 SALARY

### 3.1.2 JOB RETENTION

Salary appears to be one of the practical drivers that determine employee retention<sup>36</sup>, although studies have shown that it is not the primary driver. The results of a retention survey in the United States of over 700 employees and over 100 HR professionals, found that employees ranked quality of compensation package the sixth most important reason affecting retention (quality of relationship with manager was ranked first and work-life balance second); while HR professionals ranked it

as the second most important reason<sup>37</sup>. Work by the Institute for Employment Studies (IES) found that among clerical, administrative and professional employees leaving financial sector organisations, pay was not cited as a main reason for leaving, in fact less than 10% of leavers cited pay as a reason at all. However, we do not know whether these employees left for another role within financial services and/or with similar levels of pay, and therefore salary was not a main concern<sup>38</sup>. We also note that this IES research was conducted in

the 1990s - since then the labour market has evolved and therefore the findings may not be true or as relevant to current employees. A survey of 2,000 employees and over 500 employers from varying business sizes conducted by Aviva, found that when questioned about why they stay with their employers, 44% of employees stated that work-life balance was one of the main reasons why they continued in their current role and 40% stated salary<sup>39</sup>. A quantitative survey conducted amongst 200 employees working in the banking sector, found that both monetary and non-monetary rewards are positively linked with employee retention and it is the presence of both reward systems that yield the positive impact on retention. This led the researchers to conclude that the absence of one reward system will render the implemented reward program ineffective. For example, if monetary rewards are all that are offered, retention levels are likely to drop<sup>40</sup>.

With regards to the size of pay increase likely required to facilitate employee retention, grey literature by Glassdoor found that a 10% increase in base pay is associated with a 1.5% higher chance that a worker will stay at the company for their next role. Furthermore, this

finding holds true when controlling for measures of company culture, job title, industry, job location and other factors. However, the research also found that 37% of job moves within the sample resulted in lower pay for workers. This shows that employees will leave for lower pay, thus suggesting other factors (such as company culture and career development opportunities) are more important than pay in retaining employees. The research was conducted in the US and analysed over 5,000 job transitions extracted from CVs on Glassdoor between 2007 and 2016. However, some caution must be used in interpreting the data as data is based on CVs shared on Glassdoor which may not be fully representative of the US workforce, base pay for each job was estimated using Glassdoor salary data and the information people include in their CV may not always be an accurate reflection of their experience<sup>41</sup>.

**Relative salary:** As with job satisfaction, relative salary is a factor in employee retention. Analysis of data on a sample of 900 workplaces across Britain from the United Kingdom's Workplace Employee Relations Surveys 1997 - 1998 (WERS98), in which mean pay was £258 per week, has shown that greater

positive pay distribution (ie where the majority of workers are near the bottom of the salary range paid by the employer) is associated with higher employee turnover<sup>42</sup>.



32 Baldwin, S. (2006). Organisational justice. Brighton: Institute for Employment Studies

33 Williams, M. L., McDaniel, M. A., & Nguyen, N. T. (2006). A meta-analysis of the antecedents and consequences of pay level satisfaction. *Journal of Applied Psychology*, 91(2), 392.

34 Brown, M. (2001). Unequal pay, unequal responses? Pay referents and their implications for pay level satisfaction. *Journal of Management Studies*, 38(6), 879-886.

35 Breza, E., Kaur, S., & Shamdassani, Y. (2018). The morale effects of pay inequality. *The Quarterly Journal of Economics*, 133(2), 611-663.

36 Bernthal, P.R., and Richard S. Wellins, R.S. (2001). *Retaining Talent: A Benchmarking Study*. HR Benchmark Group, 2(3).

37 Ibid.

38 Bevan, S., Barber, L., and Robinson, D. (1997). *Keeping the Best: A Practical Guide to Retaining Key Employees*. Institute for Employment Studies.

39 Aviva. (2019). Employee Benefits: A Survey from the UK Workplace. [Available from Aviva](#)

40 Qadir, K., Gul, R. & Hamid, K. (2018). Attitude of Employees Towards Monetary and Non-Monetary Rewards and its Impact on Motivation and Turnover. *International Journal of Technical Research & Science*. 3.

41 Glassdoor. (2016). Why Do Workers Quit? The Factors that Predict Employee Turnover. [Available from Glassdoor](#)

42 Brown, G. D., Gardner, J., Oswald, A. J., & Qian, J. (2008). Does wage rank affect employees' well-being?. *Industrial Relations: A Journal of Economy and Society*, 47(3), 355-389.



# 3. MONETARY REWARDS

## 3.1 SALARY

### 3.1.3 EMPLOYEE WELLBEING

Pay is an important factor in determining employee wellbeing, although not the most important one. In their research on the ways in which work and workplace quality influence people's wellbeing around the world, Krekel et al. found that pay is an important factor for employee wellbeing<sup>43</sup>, and this is universal across employees who are employed or self-employed and working full-time or part-time, or between genders and different levels of education. However, it's worth noting that the research found that other factors such as little stress at work or work-life balance are equally, if not more, important in determining employee wellbeing. In terms of the level of pay required to facilitate wellbeing, a 2010 study of employees in the US found that emotional wellbeing levels (ie. the emotional quality of an individual's everyday experience) increase with salary levels up to a salary of \$75,000 (~£50,000). The research shows this is because lack of money brings both emotional misery and low life evaluation (life evaluation refers to the thoughts that people have about their life when they think about it). Furthermore, life's challenges such as ill-health, divorce and being alone are significantly exacerbated

by poverty and the benefits of the weekend are less for those on a lower income. However, emotional well-being levels plateau after salary levels of over \$75,000 suggesting that above a certain level of stable income, individuals' emotional well-being is constrained by factors other than pay, such as their life circumstances<sup>44</sup>.

**Relative pay:** As with job satisfaction and retention, relative pay is also an important factor in determining employee wellbeing. The work by Krekel et al. analysed both the actual income of respondents and their subjective assessment of whether that income is high. It was found that both elements are important, however objective income is a little more important in determining employee wellbeing than subjective income<sup>45</sup>. An analysis of 16,000 British employees, shows that employee wellbeing levels are statistically significantly linked to the rank of an individual's wage within their workplace. The greater the rank of an employee (ie the higher up the pay scale they are in an ordinal sense), the higher their wellbeing levels are likely to be<sup>46</sup>.

### 3.1.4 EQUALITY, DIVERSITY AND INCLUSION

**Age:** Younger and older employees place different value on monetary rewards, including pay. A multisource study with 166 managers, found that while younger employees (participants in this group had an average age of 37.6 years) were satisfied primarily by monetary rewards, older employees (participants in this group had an average age of 55.6 years) were satisfied primarily by their task contributions. In fact, older employees can have a complex relationship with monetary rewards; high pay levels can have a negative impact on older employees job satisfaction when task contributions are low, because being over-rewarded in proportion to their contributions can trigger aversive feelings of dissonance<sup>47</sup>.

**Gender:** On average, women are less likely to negotiate their pay, and this can lead to women having lower starting salaries than men - a problem which can persist and grow over time.<sup>48,49</sup> To encourage more women to negotiate, employers can state what the precise salary range on offer is, and whether the salary is negotiable - as one of the reasons women negotiate less is they can be penalised when they do. This



transparency about what is available and whether negotiation is encouraged can therefore help improve gender equality, by giving an important signal about what is appropriate.



Do you have questions about your requirements as an employer to get your Gender Pay Reporting right? We advise clients on their calculations and encourage them to question how current policies may be contributing to any problems. [Find out more here.](#)

43 De Neve, J. E., Krekel, C., & Ward, G. (2018). Work and well-being: A global perspective. *Global happiness policy report*, 74-128.

44 Kahneman, D., & Deaton, A. (2010). High income improves evaluation of life but not emotional well-being. *Proceedings of the national academy of sciences*, 107(38), 16489-16493.

45 De Neve, J. E., Krekel, C., & Ward, G. (2018). Work and well-being: A global perspective. *Global happiness policy report*, 74-128.

46 Brown, G. D., Gardner, J., Oswald, A. J., & Qian, J. (2008). Does wage rank affect employees' well-being?. *Industrial Relations: A Journal of Economy and Society*, 47(3), 355-389.

47 Kollmann, T., Stöckmann, C., Kensbock, J. M., & Peschl, A. (2020). What satisfies younger versus older employees, and why? An aging perspective on equity theory to explain interactive effects of employee age, monetary rewards, and task contributions on job satisfaction. *Human Resource Management*, 59(1), 101-115.

48 Leibbrandt, A., & List, J. A. (2015). Do women avoid salary negotiations? Evidence from a large-scale natural field experiment. *Management Science*, 61(9), 2016-2024.

49 Equal pay is the legal requirement to pay the same to men and women who carry out the same jobs, similar jobs or work of equal value at the same locations. The EHRC's Equal Pay Statutory Code of Practice provides employers comprehensive guidance on the Act and their responsibilities under it.



# 3. MONETARY REWARDS

## 3.1 SALARY

### Salary Recommendations

**Employers should ensure clear, transparent and honest communication with employees on salary**



- ▶ This communication should focus on the process by which salary was determined, including discussion around how the salary relates to performance or responsibility, and what it takes to get to the next pay grade. Benchmarking information can also be shared: paying the going rate in a particular labour market could offer reassurance that the salary on offer is fair
- ▶ This discussion could be timed in conjunction with performance and end-of-year reviews, depending on pay progression arrangements in the organisation
- ▶ Pay transparency can backfire if it reveals potentially unfair processes or decisions, such as if employees observe that others in similar roles are paid more
- ▶ Pay transparency is a way to reduce an organisation's gender pay gap. Being clear about what pay is available, and whether negotiation is acceptable, can also lead to fairer salaries for women.

**Employers should consider conducting a survey on motivations and reward preferences to better understand what its employees really value**

- ▶ A standalone survey whether employees are more motivated by intrinsic rewards like the desire to learn something new or by extrinsic rewards like financial incentives would allow a more nuanced understanding of how different rewards may affect particular types of individuals
- ▶ This understanding can then feed into improving the design and implementation of incentive plans. For instance, if the company's employees are a mix of intrinsic and extrinsic motivators, the company may consider i) offering a combination of monetary and non-monetary rewards (eg more training opportunities, recognition, paid leave) rather than cash alone, or ii) offering choice as to which incentive the employee can select.



**Employers should collect good data on the factors that most affect employee retention and ensure HR have an evidence based understanding**

- ▶ A survey among current employees could be used to explore the factors that affect employee retention and to identify high-risk groups of employees and trends over time
- ▶ Well-structured exit-interviews can be used to explore factors affecting employee retention, although post-rationalisation can affect responses and therefore they should be treated with a degree of caution
- ▶ This robust data should provide direct indications as to how to improve staff retention and be fed into HR practices and policies regarding the retention of employees.

**Employers should consider the structure of pay scales and other factors such as stress at work and work-life balance to address employee wellbeing**

- ▶ Carefully considering the structure of pay scales, so there is less difference between the lowest and highest salaries within a pay band, is likely to improve employee wellbeing
- ▶ Addressing factors such as stress at work and work-life balance are more likely to improve employee wellbeing than absolute pay.

**Employers could consider designing individualised reward schemes to account for the differential value older and younger employees place on monetary rewards**

- ▶ Flexible reward schemes which provide the choice between cash or non-cash rewards with the same financial value could be utilised, for example the option of direct cash rewards or restaurant vouchers, gym memberships etc
- ▶ However, pay schemes should always be fair and transparent and in compliance with legal regulations in relation to age discrimination (such as the Equality Act) - with the total value of the package remaining equal for equal roles.



# 3. MONETARY REWARDS

## 3.2 BONUSES

### Context

Offering employees performance-based incentive pay is one common approach to motivate employees.

ONS data from 2017 suggests that bonuses as a percentage of total pay were 6.2% overall, with the financial and insurance industries paying the highest average bonus per employee.<sup>50</sup> In the financial and insurance industries bonuses contribute to almost a quarter of annual pay, but for the rest of the economy they contribute to 4.5%.<sup>51</sup>

### Summary of findings

- ▶ Overall, the presence of a bonus scheme is associated with greater job satisfaction than the absence of a bonus scheme
- ▶ Profit sharing is more likely to have a positive impact for men than for women, and individual bonuses seem to work better for women compared to men
- ▶ Only large bonuses (25%+) seem to have an effect; smaller percentages and amounts may not work as well
- ▶ Overall, it is inconclusive whether bonuses have a positive impact on job retention, however it does appear more likely if bonus schemes are distributed evenly across employees
- ▶ The evidence on individual-performance based bonuses on wellbeing is mixed, however group-based performance and prosocial bonuses have been shown to have a positive impact on employee wellbeing.



**ANDY GOODMAN**  
PARTNER & NATIONAL HEAD OF  
SHARE PLANS AND INCENTIVES



*The landscape around pay and incentives is more complex than ever. Whilst the war for talent is fierce and employees are increasingly reflective on what they want from their careers, there are a growing number of monetary and non-monetary levers that operate to make the employment proposition more or less attractive to current and potential staff.*

*The employee population in a business is of course not homogenous which means that they will each have varying preferences for which financial and non-financial elements are important to them as part of their employment package.*

*The challenge of being able to create a successful employment proposition may be daunting but it is also a big opportunity for businesses.*

50 Office for National Statistics. (2017). Average weekly earnings, bonus payments in Great Britain: 2017. Available [here](#)  
51 Ibid.



# 3. MONETARY REWARDS

## 3.2 BONUSES

### 3.2.1 JOB SATISFACTION

A survey from Aviva conducted with over 2,000 employees across 502 companies of different sizes in the UK showed that bonuses were an appealing perk for only 25% of respondents, compared to more vacation time (44%) or flexible work hours (39%). The survey also found that only 9% of people report that bonuses are a major factor in considering whether to stay in their current job.<sup>52</sup> However, bonus schemes may have very different effects on employee job satisfaction depending on how they are structured - that is, whether the bonus is in the form

of performance-related individual pay, profit-related pay, or share ownership. For instance, employees who are offered either individual-based incentives or profit shares tend to report higher job satisfaction.<sup>53</sup> However, interviews and questionnaires conducted with over 13,600 employees across nearly 1,300 private-sector workplaces in the United Kingdom showed that, although performance-related pay was positively associated with job satisfaction, profit-related pay did not have similar positive effects; in fact, some levels of profit-related pay resulted in employees being less committed and less satisfied with

their job.<sup>54</sup> High employee uptake of share ownership was associated with reduced job satisfaction, and did not impact employee well-being.<sup>55</sup> Evidence suggests this could be because as with any group incentive plan, profit sharing may result in some employees gaining from the effort of others with no greater effort on their part (thus resulting in some employees working harder) - known as the 'free rider problem'. Another possibility is that employees cannot see strong links between their effort and their company's performance.<sup>56</sup> Other studies have found that profit-sharing initiatives are associated with positive employee outcomes.<sup>57 58</sup> For instance, a survey of over 40,000 employees in 14 US firms found that employees in receipt of group-performance bonuses or profit shares, and those in share-ownership schemes, tended to identify more strongly with the organisation than those on standard fixed-pay contracts, and have higher job satisfaction and work harder as a result.<sup>59</sup> A 2008 survey-based study with nearly 12,000 UK employees finds a similar effect - higher levels of job satisfaction with performance-based and profit-sharing initiatives.<sup>60</sup> This study also highlights the need to account for differences between genders and sectors,

for example. These factors are outlined below:

**Performance pay increases men's job satisfaction, but not women's:** The work of Green and Haywood<sup>61</sup>, and more recently, Ledić<sup>62</sup>, shows clear evidence that individual performance pay and profit sharing affect men and women differently. For instance, men, but not women, tend to report higher job satisfaction when they receive cash incentives calculated based on the annual profit-sharing amount. More specifically, men reported higher satisfaction with pay and job security, whereas women reported higher satisfaction only with job security. Similarly, individual-based incentives increased satisfaction with work hours, pay and job security for men, but only increased pay satisfaction for women.<sup>63</sup> Another study also found that although all incentive pay schemes — performance-related pay, profit-related pay, and share ownership — were associated with an increase in job satisfaction for both genders, job satisfaction for men was higher for all of these incentives, whereas women's satisfaction only increased in jobs offering individual-based incentives.<sup>64</sup> Women's lower satisfaction when offered team-based rewards is supported

by research showing that women feel more peer pressure when operating in groups.<sup>65</sup> However, there is also evidence which shows the contrary: that when men and women are asked to choose between team and individual compensation, women tend to choose team compensation more frequently than men.<sup>66</sup> However, some caution must be used in interpreting this data as it is based on a laboratory experiment with students in the US.



52 Aviva. (2019). Employee Benefits: A Survey from the UK Workplace. Available from [here](#).

53 Heywood, J. S., & Wei, X. (2006). Performance pay and job satisfaction. *Journal of Industrial relations*, 48(4), 523-540.

54 Ogbonnaya, C., Daniels, K., & Nielsen, K. (2017). Does contingent pay encourage positive employee attitudes and intensify work?. *Human Resource Management Journal*, 27(1), 94-112.

55 Ibid.

56 Fang, T. (2016). Profit sharing: Consequences for workers. *IZA World of Labor*.

57 Heywood, J. S., & Wei, X. (2006). Performance pay and job satisfaction. *Journal of Industrial relations*, 48(4), 523-540.

58 Bryson, A., Clark, A. E., Freeman, R. B., & Green, C. P. (2016). Share capitalism and worker wellbeing. *Labour Economics*, 42, 151-158.

59 Kruse, D. L., Mackin, C., Freeman, R. B., & Blasi, J. R. (2010). 4. *Creating a Bigger Pie? The Effects of Employee Ownership, Profit Sharing, and Stock Options on Workplace Performance* (pp. 139-166). University of Chicago Press.

60 Green, C., & Heywood, J. S. (2008). Does performance pay increase job satisfaction?. *Economica*, 75(300), 710-728.

61 Ibid.

62 Ledić, M. (2018). Performance pay jobs and job satisfaction. *CESifo Economic Studies*, 64(1), 78-102.

63 Green, C., & Heywood, J. S. (2008). Does performance pay increase job satisfaction?. *Economica*, 75(300), 710-728.

64 Ledić, M. (2018). Performance pay jobs and job satisfaction. *CESifo Economic Studies*, 64(1), 78-102.

65 Heywood J. S., Bender K. A., Donohue S. M. (2005). Job Satisfaction and Gender Segregation, *Oxford Economic Papers* 57, 479-96.



# 3. MONETARY REWARDS

## 3.2 BONUSES



On balance, it looks like performance pay may increase job satisfaction for men, but has little or no impact on women's satisfaction with work. The effect of bonus schemes on job satisfaction differs between sectors, as well. For instance, one study found that employees in the manufacturing and contracting sectors are likely to exhibit higher levels of job satisfaction compared to the primary and service sectors.<sup>67</sup>

Performance pay increases job satisfaction for those with higher salaries: Data from a UK representative survey of over 9,000 employers (representative of industry in the

UK in terms of industry, sector and occupation) finds that bonuses increase job satisfaction, but only in those in higher-paying occupations (eg CEOs, managers) and industries (eg finance, banking, insurance), who also receive higher salaries.<sup>68</sup> Evidence suggests this is because in jobs that are paid less and/or have some aspect of social service, employees are often perceived not to be 'in it for the money' and hence, it is thought, financial incentives like bonuses can interfere with or even 'crowd out' their intrinsic motivation.<sup>69</sup> On the other hand, incentive pay is effective for financial professionals who - as a survey

of 465 bankers in Germany finds - have higher monetary motivation than the general population.<sup>70</sup>

Bonuses increase job satisfaction but only if they are large enough: An analysis of the British Household Panel Survey (BHPS) between 1998 and 2007 suggests that the existence of incentive pay schemes is associated with greater job satisfaction.<sup>71</sup> However, after controlling for factors that potentially affect the influence of a bonus scheme on job satisfaction, only large bonuses (defined as being greater than 25% of an individual's salary) had a positive impact on job satisfaction. This implies that smaller percentages and amounts may not work as well. Indeed, small bonuses (defined as less than 1% of an employee's salary) had a significant negative effect on employees' satisfaction with their work. Further, a survey of over 40,000 employees in the US finds that bonus payments impact positively on employees' job satisfaction but only if they receive a large enough share of pay in bonuses.<sup>72</sup>

Larger bonuses made both men and women feel more satisfied with their jobs; however, men were more satisfied than women when the bonus amount was at the very top of the bonus

distribution. This could explain why individual bonuses and profit-sharing schemes have previously been found to be more effective for men rather than women on average.<sup>73</sup>

Does it matter when a bonus is paid? Present bias is the tendency for people to overvalue immediate rewards, at the expense of long-term benefits or costs. For instance, the longer people have to wait for rewards, the more likely they are to settle for a smaller immediate reward.<sup>74</sup> Whilst there is not strong evidence looking at how present bias affects people's attitudes towards bonuses, this may suggest that employees are likely to prefer smaller, more immediate bonuses to long-term options - and that more regular bonuses could therefore encourage higher employee retention, if staff are unable to accurately calculate the value of deferred options. A survey of 1,106 executives across 43 countries showed that executives, particularly those under the age of 39, have more immediate financial needs and are more likely to value money today over money tomorrow. This tendency to discount future awards heavily was replicated across all sectors.<sup>75</sup> However, there are studies that counter this finding: a

randomised field experiment at a large Indian company that manufactures and sells consumer goods with 5,000 salespeople found that unconditional bonuses were only effective when given as a delayed reward. However, this study looked at weekly payments over a six-month period, so may not be relevant to longer performance/reward cycles. The study also found that the effectiveness of the delayed bonuses appeared to decay when such a reward scheme was repeated over time.<sup>76</sup>

66 Kuhn, P., & Villevall, M. C. (2011). Do women prefer a co-operative work environment?.

67 Green, C., & Heywood, J. S. (2008). Does performance pay increase job satisfaction?. *Economica*, 75(300), 710-728.

68 McCausland, W. D., Pouliakas, K., & Theodossiou, I. (2005). Some are punished and some are rewarded: A study of the impact of performance pay on job satisfaction. *International Journal of Manpower*.

69 Bénabou, R., & Tirole, J. (2006). Incentives and prosocial behavior. *American economic review*, 96(5), 1652-1678.

70 Deter, M. (2021). Motivated by Money: Evidence on the Personalities of People who Choose to Work in Finance. Available at SSRN 3854886.

71 Pouliakas, K. (2010). Pay enough, don't pay too much or don't pay at all? The impact of bonus intensity on job satisfaction. *Kyklos*, 63(4), 597-626.

72 Kruse, D. L., Mackin, C., Freeman, R. B., & Blasi, J. R. (2010). 4. Creating a Bigger Pie? *The Effects of Employee Ownership, Profit Sharing, and Stock Options on Workplace Performance* (pp. 139-166). University of Chicago Press.

73 Green, C., & Heywood, J. S. (2008). Does performance pay increase job satisfaction?. *Economica*, 75(300), 710-728.

74 Green, L., Fry, A. F., & Myerson, J. (1994). Discounting of delayed rewards: A life-span comparison. *Psychological science*, 5(1), 33-36.

75 Ericson, R. (2012). Making executive pay work: The psychology of incentives. *Financial Executive*, 28(8), 52-56.

76 Chung, D. J., & Narayandas, D. (2017). Incentives versus reciprocity: insights from a field experiment. *Journal of Marketing Research*, 54(4), 511-524.



# 3. MONETARY REWARDS

## 3.2 BONUSES

How should bonuses be framed? One field randomised controlled experiment randomly allocated 150 teachers to receive a bonus of up to \$8,000 at the end of the year, or as a start-of-year lump sum but under the assumption that some or all of it would have to be returned if their students did not meet performance targets. Gains in student performance were seen only when the incentives were framed as a loss rather than as a gain - ie teachers felt they were in danger of losing a bonus rather than gaining one.<sup>77</sup> This is consistent with

findings from a natural field experiment in a Chinese high tech manufacturing facility, where researchers found that teams more acutely respond to bonuses posed as losses than to comparable bonuses posed as gains.<sup>78</sup> However, a randomised field experiment at an Asian consumer goods company found that punitive bonus plans - where a bonus would be withdrawn if salespeople did not meet their quota - did not significantly alter performance when compared to a normal bonus plan.<sup>79</sup> We note that it is highly unusual for

employers to use punitive compensation. Pouliakas conducted an analysis of the British Household Panel survey and found that the removal of a bonus scheme has a negative impact on job satisfaction, such that it may be better to leave in place an ineffective bonus scheme than to remove it.<sup>80</sup> Employees who had their bonus withdrawn reported lower job satisfaction than employees who did not receive a bonus at all. These findings accord with the idea of loss aversion.

### 3.2.2 JOB RETENTION

Interviews and questionnaires conducted with over 13,600 employees across nearly 1,300 private-sector workplaces across Britain showed that profit-related pay (which included bonuses) was negatively associated with organisational commitment (employees' level of attachment and identification with their organisation). However, the research also found that where higher levels of employees participate in profit-related pay, this has a positive effect on organisational commitment. This suggests that bonuses might have a negative effect on employee retention if only available to a few employees.<sup>81</sup> Some studies conducted in the banking sector across different countries show

the positive impact of bonuses on employee retention. For example, a survey of 100 employees of a bank in Pakistan found that bonuses were a key factor in employee retention and the absence of a bonus had a significant negative impact on retention. However, the research also found that training and development (and not bonus) had the most significant impact on retention.<sup>82</sup> A survey among 197 employees of the Commercial Bank of Ethiopia (CBE), found that payment (including salary and bonus) along with work environment, accounts more than the other factors (such as medical insurance, paid sick leave, learning and development) in affecting employees' likelihood to stay at the CBE. Furthermore, increasing payments for employees also increases employee retention.<sup>83</sup> That said, there are also studies that counter this finding; a survey of 370 employees from banks across Tanzania exploring the impact of compensation on retention, found that only fair salary had a positive impact on retention. Other compensation factors, including bonuses, were not found to be significantly related to retention.<sup>84</sup> Flexibility and autonomy over benefits choices leads to greater retention.

A survey of over 300 HR managers in Spanish organisations found that organisations providing more flexible compensation systems (ie providing employees greater freedom to choose the benefits that best suited them and designing the benefits system) reported higher retention levels than organisations offering fixed benefit systems (ie providing similar benefits packages to all employees).<sup>85</sup>



77 Fryer, R. G., Levitt, S. D., List, J., & Sadoff, S. (2012). Enhancing the efficacy of teacher incentives through loss aversion: A field experiment (No. w18237). *National Bureau of Economic Research*.

78 Hossain, T., & List, J. A. (2012). The behavioralist visits the factory: Increasing productivity using simple framing manipulations. *Management Science*, 58(12), 2151-2167.

79 Chung, D. J., & Narayandas, D. (2017). Incentives versus reciprocity: insights from a field experiment. *Journal of Marketing Research*, 54(4), 511-524.

80 Pouliakas, K. (2010). Pay enough, don't pay too much or don't pay at all? The impact of bonus intensity on job satisfaction. *Kyklos*, 63(4), 597-626.

81 Ogbonnaya, C., Daniels, K., & Nielsen, K. (2017). Does contingent pay encourage positive employee attitudes and intensify work? *Human Resource Management Journal*, 27(1), 94-112.

82 Kanwal, A., & Majid, M. (2013). Retention Management in Banking System: Evidence From Multan, Punjab Pakistan. *Interdisciplinary Journal of Contemporary Research in Business*, 5(1), 795-804.

83 Adane, M. (2017). *The Impact Of Reward And Benefit On Employee Retention: In The Case Of Commercial Bank Of Ethiopia*. AAU Institutional repository.

84 Hanai, A., & Pallangyo, W. (2020). The Contribution of Compensation in the Employee Retention of the Banking Institutions in Dar es salaam, Tanzania. *European Journal of Business and Management Research*, 5(4).

85 Vidal-Salazar, M. D., Cordon-Pozo, E., & José, M. (2016). Flexibility of benefit systems and firms' attraction and retention capacities. *Employee Relations*



# 3. MONETARY REWARDS

## 3.2 BONUSES

### 3.2.3 EMPLOYEE WELLBEING

The evidence on the impact of bonuses on employee wellbeing is mixed. Analysis of data from the 2002 and 2006 General Social Surveys (GSS), which is a nationally representative survey of adults in the US, shows that performance bonuses do improve employee happiness, but only in the private sector.<sup>86</sup> However, large scale survey data among senior managers (working in HR and financial management) and employees in UK private sector organisations, revealed that individual bonuses may be experienced by employees as a burden that only provides extra pay through an intensification of the work process, which suggests that individual bonuses influence employee wellbeing in an unsustainable way.<sup>87</sup> Furthermore, research in the US and India has shown that very high individual bonuses are ineffective at improving employee morale.<sup>88</sup> However, there is evidence which shows the positive impact of group-based performance bonuses and prosocial bonuses (Eisenberg et al. define prosocial behaviour as behaviour intended to benefit one or more individuals other than oneself<sup>89</sup>) on employee wellbeing. Bryson et al.,



conducted analysis of three different sources of data on UK employees (one multinational business services corporation, the European Working Conditions Survey (EWCS), and the British Household Panel Survey (BHPS)) using job satisfaction as a proxy metric for employee wellbeing. Their analysis revealed that employees that receive group-based performance pay (such as group-bonuses) have higher employee wellbeing than other employees.<sup>90</sup> In a field study, Anika et al. showed that prosocial bonuses - in the form of donations to a charity - led to happier employees at an Australian bank. In two further field studies, they showed that prosocial bonuses in the form of

expenditure on teammates, led to better performance in both sports teams in Canada and pharmaceutical sales teams in Belgium<sup>91</sup>.

86 Park, S. M., Min, K. R., & Chen, C. A. (2016). Do monetary rewards bring happiness? Comparing the impacts of pay-for-performance in the public and private sectors. *International Review of Public Administration*, 21(3), 199-215.

87 Ogbonnaya, C., Daniels, K., & Nielsen, K. (2017). How incentive pay affects employee engagement, satisfaction, and trust. *Harvard Business Review*.

88 Ariely, D., Gneezy, U., Loewenstein, G., & Mazar, N. (2009). Large stakes and big mistakes. *The Review of Economic Studies*, 76(2), 451-469.

89 Eisenberg, N., Spinrad, T. L., & Morris, A. S. (2013). Prosocial development. In P. D. Zelazo (Ed.), *The Oxford handbook of developmental psychology*, Vol. 2. Self and other (pp. 300-325). Oxford University Press.

90 Bryson, A., Clark, A.E., Freeman, R.B., & Green, C.P. (2016). Share capitalism and worker wellbeing. *Labour Economics*, 42, 151-158.

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### BONUS RECOMMENDATIONS



**Employers must be mindful of factors - such as employee's gender or bonus size - which may affect whether bonuses improve performance and job satisfaction.**

► For example, the higher the size of the bonus payment, the more likely it is that it will lead to higher job satisfaction.

**Employers should consider implementing prosocial bonuses to improve employee wellbeing**

- Prosocial bonuses include donations towards charities or sharing rewards with colleagues, eg. team social activities
- It is important to give employees the choice of how or if they participate in such activities (eg providing a range of charities, allowing them to opt-out of activities with colleagues) so as not to counteract the positive effects of prosocial activities.

**Employers should consider making bonuses available to all employees to facilitate job retention**

► The higher the level of employees that are awarded a bonus, the more likely this is to have a positive effect on employee retention.

**Employers should give employees flexibility and autonomy over their benefits choices to facilitate retention**

- Providing employees with the flexibility to tailor their benefits packages based on their individual requirements is likely to improve retention
- However, employers should also be wary of 'choice overload' - as behavioural evidence indicates that having too many choices can make decisions more difficult, and can lead to suboptimal choices
- Choice overload is most likely to occur when people are faced with time constraints, complex choices, and a lack of expertise. Employers could therefore support staff by providing appropriate and clear information to support employees' decision making process.



# 3. MONETARY REWARDS

## 3.3. PAID ANNUAL LEAVE



### Context

In the UK, most workers who work a 5-day week must receive at least 28 days' paid annual leave a year (pro rata for part-time staff).<sup>92</sup> At least 25 days of paid leave was offered by 59% of employers in 2018, down from 73% in 2013.<sup>93</sup> A small number of organisations offer unlimited annual leave. Some organisations offer increased annual leave entitlements in line with employees' tenure.

We also discuss Shared Parental Leave (SPL). This is the 50 weeks of leave eligible parents may take after having a baby or adopting a child. Many employers choose to enhance the statutory pay through individual organisational policies.

### Summary of findings

- ▶ Paid leave helps employers to attract and retain employees. This is especially true for women and others in minority groups
- ▶ Offering more paid leave does not necessarily increase job satisfaction
- ▶ Offers of 'unlimited' time off require caution as the lack of guidance on how many days it is deemed 'okay' to take off can result in employees taking fewer days off than they otherwise would.



**NEIL WILLIAMS**  
TAX PARTNER,  
PROFESSIONAL SERVICES



*Modelling behaviour from senior staff members really is intrinsic to ensure that flexible working policies, especially those that are new to an organisation, are effective.*

*In 2017, I took 12 weeks shared parental leave ("SPL") to spend more time with my family and maintain a strong focus on my work life balance. As a new partner in the business we took the opportunity to promote mine and other new partners' ability to take this leave, which we believe contributed to numbers of male staff members taking SPL increasing rapidly to over 50 in the last year, at a range of seniority levels.*



# 3. MONETARY REWARDS

## 3.3 PAID ANNUAL LEAVE

### 3.3.1 JOB SATISFACTION

According to Glassdoor's 2017 Guide for Recruiters, about 80% of employees would choose additional benefits, such as more vacation time, over a pay rise. The survey also found differences between generations. Most notably, more vacation time was an appealing perk for those aged between 18 and 34 (only 70% of 45-54-year-olds and 66% of 55-64-year-olds said the same).<sup>94</sup>

Offering an unlimited time-off policy can be a win-win for employer and employee. However, the negative effects of unlimited-vacation-days policies implemented by companies like Virgin and Netflix suggest that switching to an unlimited time-off policy does not necessarily improve employee satisfaction. In fact, there is evidence that these companies' employees take fewer days off than employees working for companies with a national paid leave policy since - because there are no guidelines - there is uncertainty about how much time it is deemed appropriate to take off and there is worry about being seen as the person who takes the most vacation days.<sup>95</sup> This is likely related to our tendency to conform to group behaviour in fear of judgement if we do not assimilate to group norms<sup>96</sup>, and



could potentially be tackled by senior staff visibly role modelling their own use of their annual leave entitlement.

Lower rates of leave-taking where leave is unlimited may also be related to behavioural concepts around scarcity, which suggests that when something is scarce, we are more likely to value it.<sup>97</sup> Employers who choose to offer unlimited leave could therefore seek to encourage higher uptake by reminding employees that their annual leave entitlement is unique, and not available among most other employers (to counteract the scarcity effect).

In one study with Santander UK, the Behavioural Insights Team found that 'pluralistic ignorance' might be preventing dads from making use of their full shared parental leave entitlement.<sup>98</sup>

This is the tendency of people to hold a particular opinion privately while mistakenly believing the majority of people disagree with that opinion. In this case, the researchers found that Santander UK staff would encourage male colleagues to take 8 weeks of leave, but thought their male colleagues would only encourage around 6 weeks. When feedback was provided on actual norms, there was a 62% increase in the proportion of men who intended to take between 5-8 weeks of parental leave. This suggests that men underestimated their peers' support for fathers taking leave, and that this may have prevented them from taking leave themselves - perhaps because they feared negative repercussions. Simply correcting these misperceptions by sharing accurate feedback about social norms supported fathers to plan to take more leave.

### 3.3.2 JOB RETENTION

Recruiters and HR professionals say that providing paid leave to employees is increasingly making the difference in recruiting and retaining top talent<sup>99</sup>. The results of a survey in the UK of over 2,000 employees working across 502 companies of different sizes found that 44% of employees ranked 22-35 days of paid annual leave the most

important benefit for them, followed by company pension (41%) and flexible work (39%).<sup>100</sup> A 2016 survey by a management consultancy firm also found 77% of US employees said that whether a company offered paid leave - and the length of it - had some bearing on where they chose to work. Half said they would rather have more paid leave than a pay rise.<sup>101</sup>

Paid leave can increase retention especially for women and diverse talent. When Google expanded its paid parental leave policy from 12 to 18 weeks in 2007, the retention rate of women post-maternity leave increased by 50%.<sup>102</sup>



### PAID LEAVE RECOMMENDATIONS



Managers should make sure everyone is clear about their company's annual leave policy, thus reducing confusion over how many days off employees can and cannot take.

#### Managers should encourage their team to take time off, such as by

- ▶ Offering flexibility
- ▶ Modelling behaviours themselves by taking advantage of their own time off
- ▶ Measuring and communicating positive social norms to combat 'pluralistic ignorance'.

92 Gov.UK. Statutory paid holiday entitlement. Available from: <https://www.gov.uk/holiday-entitlement-rights>

93 CIPD. (2018). Reward Management: Focus employee benefits. Available from [here](#).

94 Glassdoor. (2017). Statistical reference guide for recruiters. Available from [here](#).

95 Yang, M. (2020). Why 'unlimited' time off isn't actually unlimited. BBC worklife

96 Deutsch, M., & Gerard, H.B. (1955). A study of normative and informational social influences upon individual judgment. *Journal of Abnormal and Social Psychology*, 51(3), 629-636.

97 Lynn, M. (1991). Scarcity effects on value: A quantitative review of the commodity theory literature. *Psychology & Marketing*, 8(1), 43-57.

98 Davidson et al. (2021). Supporting men to take longer parental leave and work flexibly. Research report. *The Behavioural Insights Team*.

99 Michelson, J. (2021). How Small Companies Can Offer Great Paid-Leave Programs. *Harvard Business Review*

100 Aviva. (2019). Employee Benefits: A Survey from the UK Workplace. Available from [here](#).

101 Deloitte. (2016). Parental Leave Survey. Available from [here](#).

102 Wojcicki, S. (2016). Closing the tech industry gender gap. *Huffpost*



# 3. MONETARY REWARDS

## 3.4 PENSION CONTRIBUTIONS



### Context

Since automatic pension enrolment, 78% of workers are in a workplace retirement scheme<sup>103</sup> with pension membership associated with higher base pay. The default contribution levels under pensions auto-enrolment are 5% employee contributions with employers contributing a further 3%. However, saving 8% of your salary is not sufficient for most people to reach a comfortable retirement.

### Summary of findings

- ▶ Employer pension contributions are a benefit that is greatly valued by employees
- ▶ Despite this, we did not find empirical evidence to suggest that pension contributions affect employees' satisfaction
- ▶ Rather, emerging evidence suggests that mention of generous employer contributions in job adverts may attract older workers.



**DAVID BOYCE**  
PARTNER, PRIVATE CLIENT  
SERVICES



*Pensions fit into the category of longer-term benefits of a role, based around having a clear plan over a wider term (5-20 years). These will also cover areas such as promotion prospects, salary potential, and greater responsibility and autonomy.*

*Younger staff will often attach less importance to pension contributions, and it is only later that they see how a well-planned pension fund can give them the options and choices that they will ultimately see as one of the most important factors in their life and career planning.*

*The pandemic has given everyone the chance to reflect on lifestyle and choices and their own mortality. Younger employees may be considering how long they want their career to be and how they might fund later life.*

*With the Government's intention to raise the State Pension age further, and the age at which personal pensions can be taken increasing in 2028, there are new challenges facing employees in planning for their future. Employers should pay attention to both elder and younger staff to help advise them on this longer-term planning which can lead to increased satisfaction in the role and give more loyalty to their organisation.*

103 Office for National Statistics. (2020). Employee workplace pensions in the UK: 2020 provisional and 2019 final results. Available from [here](#):



# 3. MONETARY REWARDS

## 3.4 PENSION CONTRIBUTIONS

### 3.4.1 JOB SATISFACTION AND RETENTION

There is evidence that employer pension contributions are a benefit that is greatly valued by employees. The results of a survey in the UK of over 2,000 employees working across 502 companies of different sizes, found that 41% of employees ranked company pension contributions as the most important benefit for them.<sup>104</sup> This is in line with research by The People's Pension and YouGov (a survey of 1,008 UK employees and 500 UK-based HR decision makers) that finds that 83% of

employees value their employer pension contributions as a benefit second only to paid holiday leave.<sup>105</sup> However, it is likely that employee age determines how much they value employer pension contributions. In BIT's own research we found that job adverts including the benefits "flexible working opportunities" and "generous pension contributions" were associated with significantly higher likelihoods of older applicants applying.<sup>106</sup> However, for younger employees these benefits are not as attractive. Even after auto-enrolment was introduced in the UK,

over a third of young people (37.3%) either didn't have a pension or did not know if they had one. Even at age 29, around a quarter (27%) reported either not having a workplace pension or not knowing.<sup>107</sup> Behavioural science literature shows that we do not relate to our future selves and it is difficult for us to make decisions that will pay off in the long-term, if there is a cost in the short-term (ie lower immediate income when saving for a future pension). This is important as it means that increasing pension contributions may be less likely to truly motivate and increase job satisfaction of young people, although there is no rigorous evidence for this. Even so, employers can play a key role in supporting employees to increase their pension contributions, for example by encouraging employees to commit in advance to allocating a portion of their future salary increases towards their pension<sup>108</sup>.

### 3.4.2 EQUALITY AND DIVERSITY

Automatic enrolment substantially boosted pension membership, and equalised participation rates for groups with low levels of financial security - including those with little to no savings, those with lower incomes and younger employees.<sup>109</sup> There is strong evidence

from the behavioural science literature to show that people are more likely to choose the default option, with one meta-study discovering that default options are selected 27% more on average - which may help explain the success of pension auto-enrolment.<sup>110</sup> Indeed, more than 90% of eligible UK workers stick with the default pension scheme they are automatically enrolled in.<sup>111</sup> However, this also poses some challenges - as most employed workers need to save more than the default contributions in order to save for retirement, whilst other groups - such as those who cannot afford basic necessities - may benefit from increasing their current gross earnings rather than saving for a pension.

There is a 'gender pension gap', with women having lower average private pension wealth, and therefore lower income in retirement, than men.<sup>112</sup> This is driven by a range of factors, with divergences in pension participation rates between men and women broadly mirroring the gender pay gap which suggests that women may change their saving behaviour around the time they become mothers, usually in their thirties. Many women who go on maternity leave or reduce their hours to work

part-time may not be fully aware of the implications for their future pensions.<sup>113</sup> Full-time employees were 1.5 times more likely to have a pension than part-time employees, and public sector employees were still more likely (90%) to have a workplace pension than those in the private sector (73%)<sup>114</sup>.



104 Aviva. (2019). Employee Benefits: A Survey from the UK Workplace. Available from: <https://www.aviva.co.uk/business/business-perspectives/featured-articles-hub/employee-benefits-survey/>

105 The People's Pension. (2017). Employee and employer attitudes to pensions as a workplace benefit. Available from: <https://thepeoplespension.co.uk/wp-content/uploads/2017/10/Pensions-as-a-workplace-benefit-research-report.pdf>

106 Centre for Ageing Better. (2021). Ads for all ages: How age-biased are job adverts in the UK, and what can we do about it?

107 The Behavioural Insights Team. (2020). Nudging for retirement. Available from [here](#).

108 Thaler, R. H., & Benartzi, S. (2004). Save more tomorrow™: Using behavioral economics to increase employee saving. *Journal of political economy*, 112(S1), S164-S187.

109 Institute for Fiscal Studies. (2020). Automatic enrolment - too successful a nudge to boost pension saving? Available from [here](#).

110 Jachimowicz, J., Duncan, S., Weber, E., & Johnson, E. (2019). When and why defaults influence decisions: A meta-analysis of default effects. *Behavioural Public Policy*, 3(2), 159-186.

111 Institute for Fiscal Studies. (2020). Automatic enrolment - too successful a nudge to boost pension saving? Available from [here](#).

112 Institute for Fiscal Studies. (2021). Understanding the gender pension gap. Available from [here](#).

113 Trenow, P., Olchawski, J., Foster, D. L., & Heneghan, M. (2016). Closing the Pension Gap: Understanding Women's Attitudes to Pension Saving.

114 Office for National Statistics. (2021). Employee workplace pensions in the UK: 2020 provisional and 2019 final results. Available from [here](#).



# 3. MONETARY REWARDS

## 3.4 PENSION CONTRIBUTIONS

### PENSION RECOMMENDATIONS



**Emphasise pension contributions in job postings, especially if they are generous**

- ▶ Such emphasis and transparency will attract applicants of all ages and will, likely, increase the likelihood of older applicants applying.

**Provide clear information to employees embarking on, or returning from, parental leave, as well as any staff changing from full to part-time working hours**

- ▶ This information can also encourage staff to discuss and reflect on their pension choices, fully informed about workplace contributions given changing circumstances.

**Encourage employees to consider whether their default pension contributions are right for them**

- ▶ We tend to align with default options, but universal defaults may not be right for everyone - particularly for those who cannot afford to save right now, or those who may need to save more for a comfortable retirement.

**Encourage employees to increase their pension contributions when their financial circumstances change - for instance, defaulting payments from completed student loan repayments or childcare vouchers that are no longer needed to pension payments**

- ▶ Employers could pinpoint times when employees will have more disposable income, including any bonuses or pay rises, and encourage investment in a pension.





# 4. NON-MONETARY REWARDS

In this section we discuss non-monetary benefits, including company ownership, flexible working, recognition, and ESG rewards, and how these impact on staff outcomes.

## 4.1 COMPANY OWNERSHIP

### Context

The employee-owned business sector in the UK is growing because employee-ownership is proving to be a durable and successful business model. Employees in employee-owned businesses tend to be more entrepreneurial and committed to the company and its success and employee-owned businesses tend to be better at recruiting and retaining talented, committed staff.<sup>115</sup> Furthermore, research suggests that shared ownership delivers superior business performance including increase in sales and operating profits.<sup>116</sup> The top three largest employee-owned companies are John Lewis Partnership plc, Matt MacDonald Group Ltd and Arup Group Ltd.<sup>117</sup>

### Summary of key findings

- ▶ Employees who have an ownership stake or the right to participate in the decision-making in the company they work for are more committed to the business, more satisfied with their jobs, and less likely to leave. This is particularly true when ownership is combined with high-performance policies and fixed pay at or above market levels.



**CAROLINE HARWOOD**  
PARTNER & NATIONAL HEAD OF  
EMPLOYMENT TAX



*In order to survive the challenges to business arising from the COVID-19 pandemic, employers had to act quickly, with many radically changing the way in which employees worked, services were delivered and customers' needs were met. Perhaps one of the more unexpected outcomes of the pandemic has been that employees have taken this time to reflect and re-evaluate their motivations and drivers. Against a background of the 'Great Resignation' and shortages of labour across sectors and geographies in the UK, it is therefore now more important than ever for employers to take a step back and consider both how their culture and their pay and reward package influence*

*employees' decisions to join or remain with their employer. It is imperative that businesses take the time to understand their workforce and how their priorities may have shifted, particularly when considering benefits packages. It may be necessary to rebalance the structure of the package including both monetary and non-monetary benefits, including appropriate recognition and flexibility to satisfy a modern workforce, while supporting the commercial drivers of the business.*

115 Employee Ownership Association. (2017). Employee Ownership Benefits. Available from [here](#).  
116 Employee Ownership Association. (2014). The Employee ownership Top 50. Available from [here](#).  
117 Ibid



# 4. NON-MONETARY REWARDS

## 4.1 COMPANY OWNERSHIP



An EOT is a special form of employee benefit trust introduced by the Government in September 2014 which aims to facilitate wider employee-ownership via an indirect holding.

The incentive for owners is that the Government introduced very generous tax breaks to encourage shareholders to move to an employee-ownership model. However, in order to qualify for the tax incentives, the employee ownership needs to be structured in a particular way.

Although the tax breaks are aimed at companies, there is no reason why those businesses that are held by a partnership couldn't be incorporated so that, when the time comes for exit, the shareholders (former partners) can sell their shares to an EOT.

[Interested in an EOT for your business? Read more here.](#)

### 4.1.1 JOB SATISFACTION AND RETENTION

Employee ownership is associated with higher employee satisfaction, engagement and commitment to their company.<sup>118</sup> For instance, survey evidence suggests that staff of employee-owned companies report higher levels of job satisfaction compared to those in non-employee-owned businesses, with 80% of respondents saying that they were either very satisfied or satisfied with their work (compared to 72% of respondents working at non-employee owned businesses). 80% of staff of employee-owned companies would also recommend them as places to work.<sup>119</sup>

Further, employees who have equity in their business report higher levels of satisfaction than employees who were given a financial incentive instead; however, satisfaction levels were highest when employers offered a team-based reward alongside the company shares.<sup>120</sup>

Similarly, a review of studies conducted in the United States and Europe showed that employee owners have higher levels of job satisfaction - overall with their work, as well as with their pay and job security, felt that they had more influence, and were more motivated to

do their job well.<sup>121</sup>

Company ownership has a positive impact on retention, too. Studies from the early 1990s with US companies shows that employee ownership structures which combine financial incentives with greater employee involvement in decision making reduce turnover.<sup>122 123</sup> In fact, a US-based study found that employees stay with their company for 5.2 years, on average, when the company is owned by its employees - this is compared to 3.4 years for non-employee owned companies.<sup>124</sup> We would have preferred to have been able to use more recent data sources but in most cases these just were not available and therefore the studies mentioned above should be treated with a degree of caution.

In an article by the Harvard Business Review, Rosen and colleagues warn that higher productivity, higher job satisfaction and lower turnover are only achieved if the ownership structure is 'done right': a significant portion of the workforce - generally, most of the full-time employees - must hold equity; employees must think the amounts they hold can significantly improve their financial prospects; managerial practices and policies must reinforce the plan;

and employees must feel a true sense of company ownership. Those factors add up to an ownership culture in which employees' interests are aligned with the company's, and job satisfaction is increased as a result.<sup>125</sup> Research in the US shows that employee ownership (as measured through shared compensation) is associated with lower turnover and greater loyalty and willingness to work hard - particularly when combined with high-performance policies, defined as employee involvement, training, and job security, low levels of supervision, and fixed wages that are at or above market level.<sup>126</sup>

### COMPANY OWNERSHIP RECOMMENDATIONS



Employers could consider whether an employee-owned structure is right for the business

► Even if employee ownership is not right, organisations could consider implementing just three basic actions to increase employee involvement: i) encourage management to share financial information with all employees, ii) give all employees the right to participate in the decision-making, and iii) treat everyone the same (eg by calling all employees 'partners', for example).

Employee-owned businesses can further generate positive outcomes by investing in high-performance work policies, and offering fixed wages at or above market level

► These policies, combined with employee ownership, lead to greater positive effects for job retention, loyalty and staff effort.

118 Lampel, J., Banerjee, A., & Bhalla, A. (2019). The ownership effect inquiry: What does the evidence tell us. Retrieved on, 22.  
119 TOGETHER, B. B. (2012). Final report to Employee Ownership Association sponsored by John Lewis Partnership 2012.  
120 Freeman, R. B., & Dube, A. (2010). 5. Complementarity of Shared Compensation and Decision-Making Systems: Evidence from the American Labor Market (pp. 167-200). University of Chicago Press.  
121 Lampel, J., Banerjee, A., & Bhalla, A. (2019). The ownership effect inquiry: What does the evidence tell us. Retrieved on, 22.  
122 Buchko, A.A. (1993). The effects of employee ownership on employee attitudes: An integrated causal model and path analysis. *Journal of Management Studies* 30: 633-657.  
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124 Long, R.J., (1980). Job attitudes and organizational performance under employee ownership. *Academy of Management Journal*, 23:726-737.  
125 Rosen, C., Case, J., & Staubus, M. (2005). Every employee an owner. Really. *Harvard Business Review*  
126 Kruse, D. L., Mackin, C., Freeman, R. B., & Blasi, J. R. (2010). 4. Creating a Bigger Pie? *The Effects of Employee Ownership, Profit Sharing, and Stock Options on Workplace Performance* (pp. 139-166). University of Chicago Press.



# 4. NON-MONETARY REWARDS

## 4.2 FLEXIBLE WORKING



### Context:

According to research by Timewise, 87% of UK full-time employees either work flexibly already or wish they could.<sup>127</sup>

However, despite seismic shifts because of COVID-19, Timewise found that the proportion of jobs advertised with flexible working options remains low - at 22%.<sup>128</sup> Whilst many employers are considering what future hybrid working models might look like, some employers and states are experimenting with even more innovative approaches, such as a 4-day-working-week.<sup>129 130</sup> This data is likely to have changed particularly in 2021 when we witnessed more employers openly promoting their flexible working policies particularly in industry or even national press.

### Summary of findings

- ▶ Flexible working is associated with higher job satisfaction, employee retention and wellbeing
- ▶ Perceptions and utilisation of flexible working differ between men and women, however the gender norms around this are changing.

## 4.2.1 JOB SATISFACTION

Giving employees more choice and control over which hours they work improves work satisfaction.<sup>131 132</sup> For instance, Bloom and Jiang gave their staff in China the opportunity to volunteer to work from home for nine months. Half of the 16,000 employees were allowed to telecommute; the rest remained in the office as a control group. Survey response and performance data showed that, in comparison with the employees who came into the office, the at-home employees were happier, less likely to quit, and more productive.<sup>133</sup> Similarly, a randomised field experiment with over 180 employees showed that remote working led to increased job performance and job satisfaction; this effect was greatest for mothers.<sup>134</sup>

A survey-based study in the UK also found that employees who had the option to work flexibly also reported higher job satisfaction.<sup>135</sup> The survey also found that offering flexible working options improves work-life balances and boosts employee satisfaction as a result.<sup>136</sup>

## 4.2.2 JOB RETENTION

Survey evidence shows that the provision of flexible working practices has a positive impact on staff retention.<sup>137</sup> A UK representative survey of 1,000 employers (representative of industry in the UK in relation to size, sector and type of business) and 2,000 employees (representative of sector and size (private, public, voluntary), industry type and full-time/part-time working by gender) found that nearly three quarters of employers feel that implementing flexible working practices has a positive impact on staff retention. From an employee perspective, a third of employees report that flexible working has been a factor contributing to them staying with their current employer. Qualitative research shows that flexible working arrangements play a critical role in retaining staff because of the value employees place on it.<sup>138</sup> The research involved speaking to HR directors in UK organisations, who reported offering flexible working was a way of keeping talented employees from leaving the organisation and they “would rather offer someone flexibility than lose that experience”. Furthermore, offering flexible working helped foster loyalty and attachment to the organisation.

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136 Ibid.  
137 CIPD. (2012). Flexible working provision and uptake. Available from [here](#).  
138 Nicks, L., Burd, H., & Barnes, J. (2019). Flexible working qualitative analysis. Organisations' experiences of flexible working arrangements. Government Equalities Office Report. Available from [here](#).



# 4. NON-MONETARY REWARDS

## 4.2 FLEXIBLE WORKING



### 4.2.3 EMPLOYEE WELLBEING

Research has shown that flexibility of working arrangements is linked with greater employee wellbeing. Results from longitudinal data obtained from a large multinational company showed that increased workplace flexibility was associated with decreased sickness absence and work-related impairment and improved job commitment over a 1-year period.<sup>139</sup> Qualitative research among senior HR professionals working at UK organisations found that flexible working helped improve staff wellbeing,

which in turn made them more effective workers.<sup>140</sup> Evidence suggests this is because flexible working hours promote and facilitate work-life balance, and increased employee wellbeing (along with reduced stress) are outcomes of the work-life balance.<sup>141</sup> Furthermore, flexible working can lead to healthier lifestyle choices; a survey conducted by CIPD in 2021, found that a fifth of employees say flexible working helps them stay healthy by allowing them more time to exercise or make sensible lifestyle choices. A similar proportion think flexible working

reduces the amount of time they take off work sick.<sup>142</sup>

A survey conducted between 22 May and 15th June 2020 with the aim of understanding how the COVID-19 pandemic, lockdown and widespread working from home has influenced a range of work-life issues, found that working from home during the COVID-19 lockdown improved the wellbeing of 30% of employees, and increased employee satisfaction of ~23% of employees.<sup>143</sup> Another study of 1,497 working parents between May and June 2020 (mostly employees in mid to senior roles and across a range of sectors) also finds that 79% of people say that their employers being more open to remote or flexible working would have a positive impact on their wellbeing.<sup>144</sup>

### 4.2.4 EQUALITY, DIVERSITY AND INCLUSION

**Gender:** Evidence reveals that perceptions and utilisation of flexible working differ between men and women and gender norms remain an issue for flexible working. However, this appears to be changing as research with HR Directors reveals that some men are taking a greater interest in sharing childcare,<sup>145</sup> while one online study found that both women and men were more

likely to shortlist job adverts mentioning flexibility, compared to a full-time offer.<sup>146</sup>

Advertising roles with flexible working options has been proven to increase the number of women applicants to all roles, including senior level ones. An initiative by Zurich Insurance and the Behavioural Insights Team, implemented in 2019, found that advertising all jobs with part-time, job-share or flexible working options, coupled with use of an inclusive statement, led to a 16% rise in women applying for jobs and an almost 20% increase in female applications for management roles. Similar results were seen in John Lewis & Partners, where managerial-level job adverts with part-time working or job share arrangements increased the applicant pool by 50%, and the share of female applicants increased from 38% to 51%.<sup>147</sup>

Before the COVID-19 pandemic, only around 5% of UK employees worked remotely.<sup>148</sup> In the first lockdown, this rose to 33%, and even a year later, over half of UK employees were working remotely to some extent.<sup>149</sup> Following the easing of social distancing restrictions, many employers are currently considering their future models - especially 'hybrid' options. Evidence from a randomised controlled trial

conducted in September 2020 suggests that the framing of working from home policies can lead to inequality among men and women.<sup>150</sup> The trial found that setting a specific expectation around how many days staff were expected to work from home led women to reduce their intended number of days working from home, away from their preferred number of days, whilst having no impact on men's intended behaviours. This suggests that a one-size-fits-all approach could unintentionally create a gender gap. The same research found that there was no difference in how many days women and men wanted to work from home when given full autonomy, but that staff with a disability and staff with dependents both wanted to work from home for more days.

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# 4. NON-MONETARY REWARDS

## 4.2 FLEXIBLE WORKING

There is also some evidence that working from home could help reduce a company's gender pay gap: the more time women can spend working from home, the less time they spend commuting. Long commuting times have been found to contribute to the gender pay gap ie. women move jobs to work in roles that pay less yet are closer to home, following the birth of their first child.<sup>151</sup> If women are able to reduce their commute time, they may have more choice over employment options.

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### FLEXIBLE WORKING RECOMMENDATIONS



**Managers should discuss flexible working options with both new and current employees**

- ▶ These discussions should outline the types of flexible working options that the company can offer (in terms of working hours, location of work, etc.)
- ▶ Communicate that employees can choose the flexible working arrangements that will best work for them. This is important because needs related to flexible working vary considerably from person to person.

**Employers should be aware of issues related to flexible working**

- ▶ Employers need to monitor for the emergence of differences between different groups to analyse how taking-up flexible working impacts on recruitment, hiring and progression of staff within the organisation. If gaps do emerge, employers need to explore the causes of such differences.

**Employers could increase the number of female applicants by advertising all roles with flexible working options**

- ▶ Flexible working appeals to both men and women, and is a proven way to attract more senior female applicants
- ▶ Men may be encouraged to work flexibly through senior role models.





# 4. NON-MONETARY REWARDS

## 4.3 COMPANY CULTURE AND RECOGNITION



### Context

Company culture is defined as a set of shared assumptions, values and beliefs that guide how people should behave and interact, how decisions should be made and how work-related activities should be carried out.<sup>152 153</sup> Key factors in an organisation's culture include its history; environment; employees; senior management; career opportunities; work-life balance; and compensation and benefits.<sup>154 155</sup>

Intrinsic rewards based on recognition make employees feel appreciated and happier, which can then lead to increased effort and performance and increased likelihood that the employee will stay at their current company.<sup>156 157</sup>

<sup>158</sup>Recognition is most effective when it is public, from people whose feedback matters and is communicated at timely moments (eg at monthly performance and development meetings).<sup>159</sup>

### Summary of findings

- ▶ Company culture is a pivotal factor in retaining employees
- ▶ Employees are more productive and happier in the workplace when they are thanked for their hard work
- ▶ Recognition is a crucial factor in determining employee retention.

## 4.3.1 JOB SATISFACTION

Recognition and expressions of gratitude, such as sending positive feedback around the office, can make a real difference to employees' sense of job satisfaction.<sup>160</sup> In a survey with over 1,000 UK employees in 2009, employees viewed three non-monetary motivators - one of which was recognition and praise from immediate managers - as or more effective than the three highest-rated financial incentives: cash bonuses, increased base pay, and stock or stock options.<sup>161</sup> Additionally, the results of three field trials within the banking sector show that gifting

employees with small financial rewards to be spent on others in their team led to increased job satisfaction.<sup>162</sup> Other studies have shown that people can be motivated because they feel that their work has meaning, and that they are appreciated.<sup>163 164</sup> For instance, a survey of over 150 academic staff finds that employees who received recognition from their employer reported higher levels of job satisfaction than those who were offered traditional financial incentives.<sup>165</sup> However, work by Kosfield and Neckermann warns that recognition works by creating a sense of meaning

in people's jobs; therefore, if the recognition or thanks is indiscriminate, it may be more motivating not to receive it.<sup>166</sup> What this means is that how employees respond to a gift or simple 'thank you' would depend on whether or not they think that they are truly being thanked for their work, and their efforts.



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<sup>154</sup> Ibid.

<sup>155</sup> Glassdoor. (2016). Why Do Workers Quit? The Factors that Predict Employee Turnover. Available from [here](#).

<sup>156</sup> Kosfeld, M., & Neckermann, S. (2011). Getting more work for nothing? Symbolic awards and worker performance. *American Economic Journal: Microeconomics*, 3(3), 86-99.

<sup>157</sup> Ashraf, N., Bandiera, O., & Lee, S. S. (2014). Awards unbundled: Evidence from a natural field experiment. *Journal of Economic Behavior & Organization*, 100, 44-63.

<sup>158</sup> Chamberlain, A. (2017). Why do employees stay? A clear career path and good pay, for starters. *Harvard Business Review*

<sup>159</sup> O'Flaherty, S., Sanders, M. T., & Whillans, A. (2021). A Little Recognition Can Provide a Big Morale Boost. *Harvard Business Review*

<sup>160</sup> Grant, A. M. (2012). Leading with meaning: Beneficiary contact, prosocial impact, and the performance effects of transformational leadership. *Academy of management journal*, 55(2), 458-476.

<sup>161</sup> Dewhurst, M., Guthridge, M., & Mohr, E. (2009). Motivating people: Getting beyond money. *McKinsey Quarterly*, 1(4), 12-15.

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<sup>165</sup> Akafo, V., & Boateng, P. A. (2015). Impact of reward and recognition on job satisfaction and motivation. *European Journal of Business and Management*, 7(24), 112-124



# 4. NON-MONETARY REWARDS

## 4.3 COMPANY CULTURE AND RECOGNITION

### 4.3.2 JOB RETENTION

Lack of recognition and acknowledgement is cited as a major factor by employees when leaving an organisation. Research among 1,200 non-management workers (including frontline, hourly and professional staff) showed that: 46% of the employees leaving a company did so because they felt unappreciated, 61% felt that their bosses did not place much importance on them as people and 88% did not receive acknowledgement for the work they did.<sup>167</sup> In fact, research has shown that recognition is a more important factor in retaining employees than salary. A survey of executives and senior managers, talent managers and HR managers across various industries in South Africa found that performance, recognition and career management was preferred by the respondents as the primary factor in retaining employees.<sup>168</sup> A survey of over 100 employees of a South African bank which looked at the effectiveness of non-monetary rewards - including recognition and feedback - on retention found that nearly all employees placed importance on recognition and feedback as a motivator of employee performance. This highlights the importance of non-

monetary rewards such as recognition and feedback in the banking sector and the research goes on to conclude that if implemented correctly, non-monetary factors including recognition can lead to increased staff retention.<sup>169</sup> Grey literature by Glassdoor reveals that lack of recognition via title stagnation negatively impacts employee retention. In fact, every additional 10 months an employee stagnates in a role makes them 1 percent more likely to leave the company when they move on to their next position. This holds true even after controlling for factors like salary, industry, job title and measures of company culture.<sup>170</sup> In the professional services sector - which is characterised by intense client-employee interactions<sup>171</sup> - research has shown that client satisfaction (ie recognition by clients) is an important determinant of employee satisfaction, which in turn increases employee retention.<sup>172</sup> Similar grey literature by Glassdoor, which analysed over 5,000 real-world job moves in the US from CV's on Glassdoor, found that when employees leave an organisation they tend to do so for an employer with better company culture and the factor that matters most for employee retention

is company culture. This suggests that company culture may play a key role when workers are choosing whether to stay or leave their current role. Glassdoor measures company culture via the following ratings: overall rating, career opportunities, compensation and benefits, culture and values, work-life balance, and quality of senior management. However, it's also worth noting that the employees in the Glassdoor sample are highly engaged users of the platform who pay close attention to company culture and therefore they may not be fully representative of the wider labour market.<sup>173</sup>

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173 Ibid

### RECOGNITION RECOMMENDATIONS

**Employers should consider investing into a variety of factors to improve company culture which in turn will retain and attract employees**



► Factors including: culture and values; career opportunities; quality of senior management; work-life balance; compensation and benefits all contribute to overall company culture which has been shown to be a key factor in attracting and retaining employees.

**Employers could consider building moments of thanks into workplace routines**

► These can take the form of gratitude slots in meetings, sending positive feedback around the office, or even gifting employees with small financial rewards to be spent on others in their team.

**Employers should consider investments into client satisfaction and the communication of client feedback to enhance employee retention**

► Client satisfaction is positively linked to employee retention and therefore investments into client satisfaction are likely to improve employee retention  
► Positive client feedback has a significant impact on employee retention and therefore should be freely and plentifully distributed to professional services employees, and negative feedback should be communicated carefully.



# 4. NON-MONETARY REWARDS

## 4.4 ESG REWARDS



### Context

Environmental, social, and governance (ESG) issues are becoming increasingly central to an organisation's reputation and are increasingly scrutinised by stakeholders. However, there is limited research on the impact of ESG rewards on employees.<sup>174</sup>

### Summary of findings

- ▶ The retention of Generation Z employees (those born between 1997 and 2012) is strongly linked to the extent to which their employers make efforts to reduce the company's impact on the environment
- ▶ However, there is a widespread perception that greener funds don't perform as well financially as other funds
- ▶ Overall, there is widespread support for ESG incentive schemes, however factors such as performance criteria relevant to the company and accurate measurement against performance criteria need to be carefully considered.



**MICHELLE CARROLL**  
PARTNER & MEMBER OF BDO'S  
ESG EXEC



*There are three sections to ESG – Environment, Social and Governance. We are at risk of just focussing on the environmental aspects of pay and reward but the S, Social, is equally important. Businesses wanting to embed an ESG strategy must make ESG actions authentic. Firms must action the rhetoric and must be transparent about how it can 'walk the talk' (the 'Governance' aspect of ESG). If not, then a firm's authenticity will be put into question, employees will lose trust in their firm, lose job satisfaction and will leave. No amount of increase in monetary remuneration will counter that. If authentic, sponsored, actioned and felt, ESG actions and goals make an organisation attractive*

*to new recruits and help job retention, further care still needs to be taken to ensure all ESG actions are considered in the round. If not, employees will question their trust in the firm. We can all appreciate that it would be detrimental for an organisation to donate a significant amount to a homeless charity whilst its employees believe their monetary remuneration is below market rate. It would be detrimental to promote a firm's CSR day offering if they are aware that most employees are working beyond capacity and have no time to actually use them. It is detrimental if a firm promotes its increase in electric car fleets if senior leaders do not curb business class long haul flights.*

*The Environmental and Social goals, and impact, a firm can make will soon become a hygiene factor in why employees choose to join and stay with an employer. In the meantime, firms need to really consider how they shift their strategic focus from being less profit driven to being more purpose driven (without ruling out also being profit driven). Once a firm has clarity, it's equally important to have a strong Governance process to be held to account to fend off unintended adverse consequences before they happen and to always, always, maintain authenticity.*



# 4. NON-MONETARY REWARDS

## 4.4 ESG REWARDS

Research has shed light on the power of sustainability and its role as a hidden driver in recruiting and retaining young talent. We were not able to find any empirical evidence on the impact of ESG rewards on job satisfaction and retention; however, here are several key points to keep in mind when considering whether to use ESG-related incentives:

**Age matters:** A recent survey by a management consultancy firm shows that Gen Z - those born between 1997 and 2012 - is extremely interested in sustainability issues, with 28 percent of Gen Z respondents saying that climate change and safeguarding the environment is their top concern. The

study also directly linked business sustainability with staff retention of this generation. Gen Zs who feel that their employers are making efforts to reduce the company's impact on the environment are more inclined to stay with that employer for at least five years.<sup>175</sup> Similarly, Searious Business, a Dutch company committed to preventing plastic pollution, has seen a sharp increase in job applications from "people wanting a job with purpose", especially from Gen Z.<sup>176</sup> This suggests that people, particularly those from Gen Z, are more likely to apply to, and continue working for companies which focus on reducing their carbon footprints.



**Concerns about financial performance of greener funds:** There is widespread concern that people may assume that there is a trade-off between what is good for the environment and what is profitable. Indeed, a recent survey by BIT found that just 41% of pension holders think that an environmental fund would perform at least as well as the other funds financially.<sup>177</sup> A direct implication of this is that if employees are concerned about under-performance of green investments, this may have a knock-on effect on financial incentives linked to sustainability goals, or investing more in greener pension funds. However, there are also studies showing that companies that incorporate ESG issues in their investment decisions do better financially. For example, a 2017 study by Nordea Equity Research (the largest financial services group in the Nordic region) reported that from 2012 to 2015, the companies with the highest ESG ratings outperformed the lowest-rated firms by as much as 40%. In 2018, Bank of America Merrill Lynch found that firms with a better ESG record than their peers produced higher three-year returns, were more likely to become high quality stocks, were less likely to have large price declines, and were less likely to go bankrupt.<sup>178</sup>

**Move forward on ESG incentive schemes, but move with caution:** Blogs by several law firms<sup>179 180 181</sup> all reach the same conclusion; while including ESG goals within incentive schemes and/ or linking ESG metrics with executive pay, can be powerful ways to drive change and is something investors are increasingly looking for, boards and management need to tread carefully:

- ▶ Tailored criteria: performance criteria should be based on measures tailored to the company and its business
- ▶ Sufficient resource: the company will need appropriate internal reporting resources to measure and assess performance accurately
- ▶ Simple: measures should be easily explained to and by all parties and easy to understand.

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176 Turns, A. (2020). 'People want a job with purpose': why businesses are becoming more sustainable. *The Guardian*.  
177 The Behavioural Insights Team. (2021). Greening Pensions: A Behavioural Perspective.  
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### ESG REWARDS RECOMMENDATIONS

**Employers should utilise ESG rewards to retain and attract younger (Generation Z) employees**

Employers should clearly communicate the financial performance of green funds to mitigate concerns that green funds perform less well financially than other funds.

**Employers should move forwards with ESG incentive schemes but do so with caution and carefully consider factors such as:**

- ▶ Ensuring performance criteria are relevant to the company
- ▶ Ensuring sufficient research for accurate measurement against performance criteria.



# 5. TAKING BEHAVIOURAL INSIGHTS INTO ACCOUNT

Throughout this literature review, we have on occasion referred to specific behavioural insights concepts, and how these might influence employees' interaction with pay and reward systems, and employers' design of them.

For instance, we have discussed:

- ▶ **Choice overload and bonuses:** we recommend that employers enable employees to tailor their benefits packages based on individual requirements, but note that people can suffer from 'choice overload' which leads to poorer, more difficult decisions, if people face too many choices<sup>182</sup>
- ▶ **Present bias and bonuses:** people tend to overvalue immediate rewards in comparison to long-term gains.<sup>183</sup> This might mean that employees are better motivated by cash bonuses, than deferred share bonus plans
- ▶ **Loss aversion and bonuses:** people dislike loss more strongly than they like gains of equal value.<sup>184</sup> There is some evidence that performance may improve if incentives are framed as a loss rather than a gain.<sup>185</sup> However, we note that this evidence is limited
- ▶ **Defaults and pensions:** people are more likely to choose the default option, and this is likely to influence our behaviours around pension contributions, with many employees sticking with the auto-enrolment default contributions - even if this may not be the right choice for them<sup>186</sup>

- ▶ **Pluralistic ignorance and parental leave:** recent evidence suggests that 'pluralistic ignorance' - the tendency for people to hold an opinion privately while mistakenly believing that the majority think differently - could be preventing men from making use of their parental leave entitlement, or working flexibly.<sup>187</sup>

The above are just a few examples of how employers can consider behavioural science when designing their pay and reward frameworks. Below we provide some more general recommendations, which may apply across the framework:

- ▶ **Remove friction costs:** even small, and apparently minor details, can have a disproportionately large effect on whether people complete a task or not.<sup>188</sup> By removing these friction costs, we reduce the effort people need to put in, and make it easier for them. This is relevant across the pay and reward system. For instance, employers should seek to make it easy for people to change their default pension contributions, to book annual leave, or to request flexible working

- ▶ **Make processes clear and transparent:** There is evidence that salary transparency can help to reduce employers' Gender Pay Gaps.<sup>189</sup> Employers should seek to be transparent about the processes used to determine pay and reward. Wider evidence shows that operational transparency can increase customer satisfaction<sup>190</sup>
- ▶ **Make use of effective role models:** people give different weight to information depending on the role of the person communicating the information.<sup>191</sup> Employers could identify effective messengers to role model behaviours they would like to encourage - for instance, asking senior men to visibly role model flexible working.

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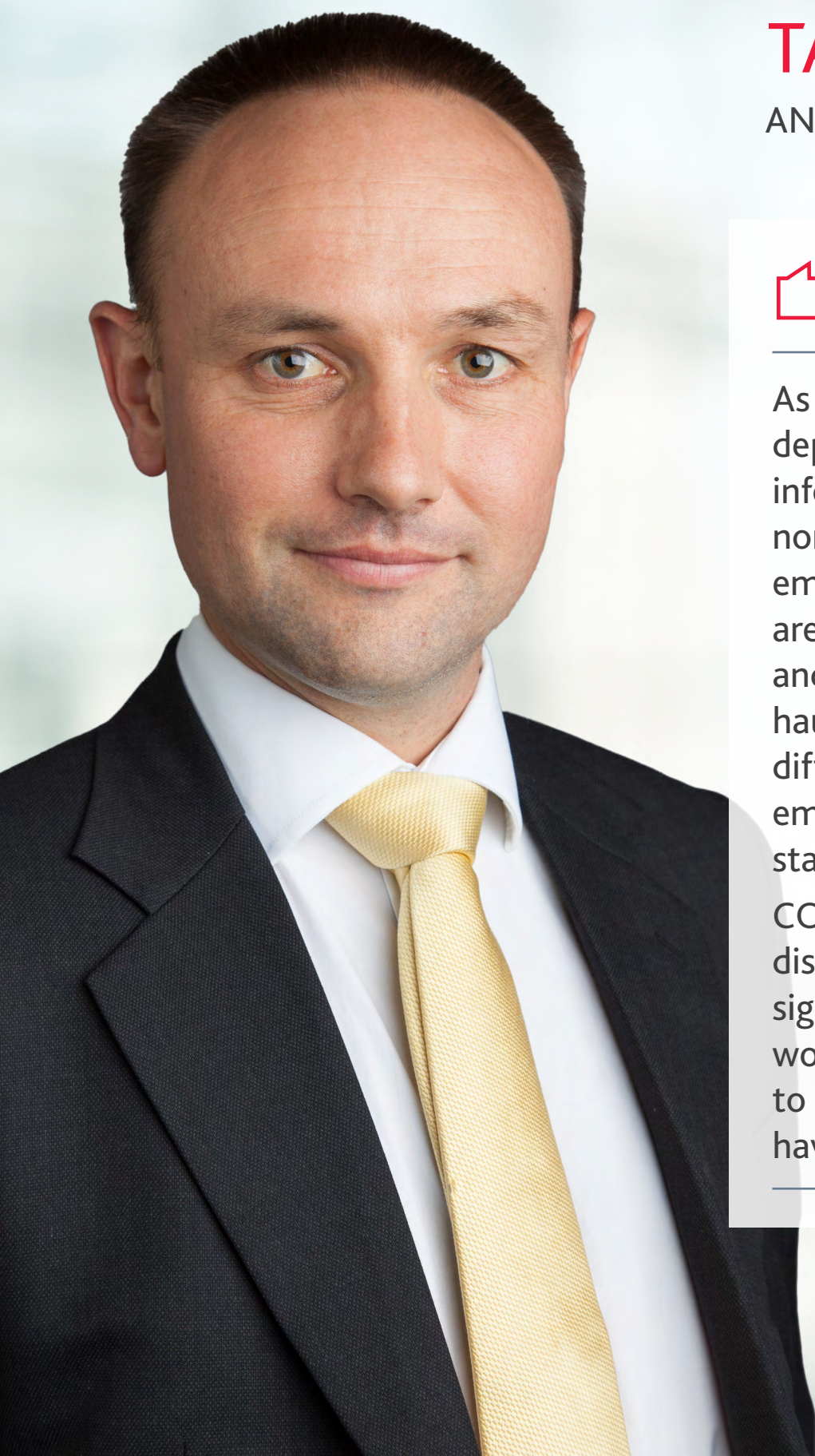
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# TAKING BEHAVIOURAL INSIGHTS INTO ACCOUNT

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As you have read from our in-depth report, there is a wealth of information around monetary and non-monetary benefits that can help employers ensure that their People are satisfied in their employment and can be retained for the long-haul. Different benefits mean different things depending on that employee's personality, lifestyle and stage of their career.

COVID-19, and subsequent social distancing measures, introduced significant changes to ways of working. Many of these are likely to have a long-lasting effect and have impacted significantly on old

working patterns. The flexibility and positive impact on work-life balance are an unexpected but welcome impact of this strange, unusual and challenging period.

Using the different levers we have covered in this report to create a working environment that sits alongside the remuneration package, aligns with and drives the culture of the business, and is tailored to employees choices, is a chance for an employer to recruit and retain a talent pool that is enfranchised with the business and will help to deliver long term success for the business as well as themselves.



If you are reviewing your Pay and Reward structure and would like to discuss this with our experts, please visit our [Shares Plans and Incentives webpage](#), contact [Andy Goodman](#) or speak to your local BDO adviser.

If you have questions about the evidence - get in touch with the [Behavioural Insights Team](#).



## 6. DEFINITIONS

	TERM	DEFINITION
Monetary benefits	Salary	Salary refers to the base pay an employee earns before benefits, bonuses, or compensation is added. Base salaries are set at either an hourly rate or as weekly, monthly, or annual income.
	Bonus	By bonus we mean a financial incentive that is paid beyond what the employee earns as base salary - also known as performance-based pay. <sup>192</sup> Bonuses usually take one of two forms: bonuses offered to individuals based on assessments of their performance, or bonuses offered as organisation-wide incentives, such as profit-related pay or share ownership.
	Paid annual leave allowance	Paid annual leave is the statutory holiday allowance of at least 28 days afforded to all UK full-time employees; many employers offer more paid vacation time. The purpose of entitlement to paid annual leave is to enable employees to rest and enjoy a period of relaxation and leisure.
	Pension contributions	By a pension contribution, we mean the amount employees save for retirement. Employers contribute, on average, 4.5% of pay, jumping up to ~9.5% in finance and insurance industries.
Non-monetary benefits	Company ownership	By company ownership we mean an ownership structure where a company is partly or wholly owned by its employees. It is common in a range of sectors including manufacturing, engineering, law and consultancy.  Employee ownership can be achieved through direct shareholdings or an employee-owned trust.
	Company culture and recognition	Company culture is defined as a set of shared assumptions, values and beliefs that guide how people should behave and interact, how decisions should be made and how work-related activities should be carried out.  Employee recognition is the activity organisations engage in to acknowledge exceptional performance and encourage specific values or behaviours. <sup>193</sup>

195 Weiss, H. M. (2002). Deconstructing job satisfaction: Separating evaluations, beliefs and affective experiences. *Human Resource Management Review*, 12(2), 173-194.

196 Bernthal, P. R., & Wellins, R. S. (2001). Retaining talent: A benchmarking study. *HR Benchmark Group*, 2(3), 1-28.



## 6. DEFINITIONS

	TERM	DEFINITION
Non-monetary benefits	Flexible working	By flexible working we mean all types of flexibility – including the number of hours worked (eg part-time), the ways in which they are worked (eg flexitime; compressed hours), the location of the work (eg working from home, working remotely) and other arrangements (eg job sharing).
	Environmental, Social and Governance (ESG)	Environmental, Social and Governance (ESG) incentives have positive or neutral impacts on the environment. One example of an ESG incentive is a 'green pension', by which we mean a pension fund which is invested in businesses whose practices are sustainable and environmentally-friendly and/or which work in sectors with low carbon emissions. <sup>194</sup>
Outcomes	Job satisfaction	Job satisfaction refers to an employee's overall level of satisfaction or happiness with their job. <sup>195</sup> Job satisfaction can be measured along several dimensions, such as satisfaction with working hours and conditions, as well as satisfaction with pay and benefits.
	Job retention	Job retention refers to an organisation's ability to keep the employees it has already hired. The opposite of retention - turnover - is another way to understand and analyse retention. <sup>196</sup>
	Wellbeing	Wellbeing is more than an avoidance of becoming physically sick. It represents a broader bio-psychosocial construct that includes physical, mental and social health. Well employees are physically and mentally able, willing to contribute in the workplace and likely to be more engaged at work. <sup>197</sup>
	Equality, Diversity and Inclusion (EDI)	Equality refers to creating fair and equal opportunities where everyone can participate and has the same opportunity to fulfil their potential. Diversity refers to recognising the full range of differences between people, across characteristics such as age, disability, race and sexual orientation. Inclusion refers to an individual's experience within the workplace and the extent to which they feel valued and included.

197 CIPD. (2016). Growing the health and well-being agenda: From first steps to full potential. Available from [here](#).



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