

**THE BIG QUESTION**

# How effective is pay for performance?

“People are motivated when they feel valued by their organisation. Performance pay and cash bonuses certainly have a part to play in this, but ultimately it is personal recognition that is most important. Too often organisations will give a cash bonus or pay award without giving context as to why they have earned it or even a simple ‘thank you’. Employees still appreciate the extra money in the pay packet but that will be a temporary feeling that fades quickly, whereas personal recognition is associated with the individual who gives it and stays in the mind. Organisations should remember that if you aren’t communicating your performance pay properly you are simply wasting the cash.”

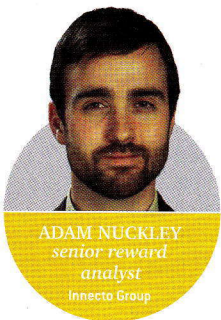
“Although it may be tempting to think of pay-for-performance as jargon, good remuneration design offers a line of sight for executives, as well as an incentive to deliver growth in shareholder value. Good design is steady or lowered bonuses, combined with an increased pay opportunity tied to the long term. In recent years bonuses have become more popular. But our data shows those chief executives delivering the least value are sometimes those taking home the largest bonuses. Chiefs who deliver excellent performance over the long term are the ones delivering the most value. Annual bonuses to encourage short-term performance should be discouraged in favour of long-term incentive plans.”

“There is convincing academic evidence that performance-related pay doesn’t generate higher levels of performance. It is also one of the main factors behind the growing gap between directors’ pay and that of ordinary workers, and companies with high wage ratios do tend to perform worse in terms of productivity and profitability. The problem is that it is not easy setting targets that only pay out for good or outstanding performance, and directors continue to be regularly rewarded for mediocre – and even poor – performance. But as the overwhelming majority of employees are expected to do their best for a fixed salary, it’s hard to find a reason why it should be any different for top executives.”

**HAPPENING NOW**

## Small business auto-enrolment

SMEs are fast approaching their staging dates for auto-enrolment. Around 29,000 employers are expected to stage over the first half of this year – but are they ready? Advisers and providers have voiced concerns about a ‘capacity crunch’ as SMEs struggle to deal with governance and compliance issues. Speaking at *Reward and Pensions Insight’s* DC Insight event in November, Ferdinand Lovett, a solicitor at Sackers, spoke of a lack of preparation – but that a capacity crunch can be avoided with engagement and education.



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**FRANCES O’GRADY**  
General Secretary  
TUC

**DIARY DATES**

23 Jan **SOCIAL MEDIA GRADUATE RECRUITMENT CONFERENCE AND AWARDS**  
Tower Hill, London [www.somegradawards.co.uk](http://www.somegradawards.co.uk)

29 – 30 Jan **EMPLOYEE ENGAGEMENT CONFERENCE** Westminster, London  
[www.cipd.co.uk/events/employee-engagement](http://www.cipd.co.uk/events/employee-engagement)

4 – 5 Feb **12TH ANNUAL HR DIRECTORS’ BUSINESS SUMMIT**  
The ICC Birmingham [www.hrevent.com](http://www.hrevent.com)

29 – 30 Jan **LEARNING TECHNOLOGIES SHOW**  
Olympia 2, London [www.learningtechnologies.co.uk](http://www.learningtechnologies.co.uk)

21 – 22 Feb **THE WORK & FAMILY SHOW** London ExCeL, London  
[www.theworkandfamilyshow.co.uk](http://www.theworkandfamilyshow.co.uk)

27 Feb **MANCHESTER HR SUMMIT**  
The Midland, Manchester  
[www.forumevents.co.uk](http://www.forumevents.co.uk)

14 – 15 May **REWARD LIVE** Edgbaston Cricket Ground, Birmingham  
[www.rewardlive.co.uk](http://www.rewardlive.co.uk)