Applying a reward strategy in local government

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Introduction

This paper is based on a brief literature review and is aimed at councils considering their approach to reward to help them frame their reward strategy in the context of their organisational challenges. The reductions to local government funding during the 2010-15 Parliament compelled local authorities to explore alternative forms of service delivery in order to reduce costs and generate new revenue streams (Sandford, 2016) and the need to 'do more with less' means that there is strong pressure on all local authority service models to ensure that reward spend is optimised. These pressures and changes have implications for councils' reward strategies and how they attract and retain staff to ensure optimum performance (LGA, 2012). So, whilst many councils remain wedded to national bargaining (and for good reason), others will consider local initiatives as necessary to meet their organisational objectives.

We begin by briefly discussing the context for the paper in terms of changing local government delivery models and the associated drivers for a local authority reward strategy. We then consider what constitutes a reward strategy, and the need to align reward arrangements with business and workforce strategies. We then consider the importance of total reward approaches and briefly summarise how certain local government service models align with different reward approaches.

Context

The Local Government Association (LGA) has recommended to councils that they should review and refresh their reward strategies (Ibid). As with many sectors across the economy, local authorities are facing strong cost control pressures alongside the need to retain talent and knowledge, and promote improved performance (Hay, 2009). Organisational needs, management strategies and reward practices can 'get out of line' as local authorities have adapted to pressures, but alignment and integration in these areas is crucial (Ibid;1). The economic pressures on local government have now made it less common for local authorities to rely solely on traditional in-house operations to deliver public services or internal functions (Sandford, 2016) and alternative approaches are being used, including:

- the use of 'shared services', not only within councils, but between multiple local authorities and also between local authorities and other public bodies

- outsourcing to private or voluntary providers

- an increasing trend in 'insourcing'

- the increasing deployment of Local Authority Trading Companies (LATCs) to trade for profit, providing a revenue stream for the local authority

- similarly the creation of mutual companies to operate in a different manner (Sandford, 2016).

The core of reward strategy thinking is to align the HR and reward arrangements to support the desired strategy and structure (Armstrong and Brown, 2006). Consideration of the rationale for pursuing a particular service model, or hybrid models, is likely to influence the framing of a local authority's reward strategy and will help identify some of the drivers and implications for the strategy.

Shared services

The core rationale for local authorities sharing their service provision with other local authorities or public bodies is typically financial, (Sandford, 2016) exploiting the benefits of economies of scale. The councils may also be seeking 'service improvements and improved internal effectiveness' and to 'tap into greater levels of expertise' (Ibid:5).

An LGA evaluation of the success of five examples of shared services in 2012 suggested that initial reductions in staffing (due to deduplication and merged structures) through the sharing of services delivered quick savings, with further savings resulting from improved business practices (cited in Sandford, 2016). The shared services model may also provide an income stream if services are also offered to other organisations (Ibid).

In the context of public service transformation, a shared services delivery model may bring about 'changes in traditional leadership and employment relations, including the involvement of employees in transformation initiatives' (Sanford, 2016:7), with the CIPD stating that 'public services can only be more responsive to the needs of service users if employees on the front line are trusted to innovate and empowered to act with more autonomy. This requires a fundamental culture change away from traditional command and control models of leadership to one in which leadership is distributed across organisations.' (CIPD, 2014:4). Indeed in 2015, the LGA facilitated chief executive network raised concerns that existing HR strategies and processes neither supported the business and transformational goals of the councils, nor adequately supported, recognised and rewarded staff for making the changes required in sharing (Varney et al, 2015).

Employee reward is a key cost for councils, representing approximately a quarter of all expenditure, but also a key means of reinforcing and recognising the achievement of partnership goals and display of the required behaviours and values. National arrangements in the past have limited the scope for creativity and innovation, but partnership can open up the opportunities for necessary changes (Ibid).

Wider partnering

Further partnership working and joint arrangements with other public sector bodies, eg shared management teams, joint commissioning (for example of community and adult social care, economic regeneration, transport structures); community budgets, and partnerships with the private sector (for example, the public private partnerships created by a local enterprise partnership – LEPs) are also a move towards achieving financial security for local authorities (Grant Thornton, 2014).

Academics and policymakers alike cite a plethora of benefits to partnership working and collaboration across organisations. For example, partnership working helps to tackle complex issues and enables skill sharing and knowledge transfer (Glasby and Lester, 2004); can eliminate gaps in provision; helps ensure the best use of resources by reducing duplication, achieving greater economies of scale and enabling service providers to be more responsive to the needs of service users.

Partnering arrangements often make a review of reward strategy essential, as staff on different rewards doing similar work may be brought into close proximity. Yet austerity and a cost and pay-constrained public sector context, with frozen or low pay awards and pension changes, often make this a difficult and controversial area to change (Brown et al, 2015). There can be 'obvious tension[s]' between partners over pay and benefits when pre-existing differences are brought to a head (CIPD, 2003) and harmonising 'up' is not generally financially viable, especially when resources are tight. Resolving differences can be a long and arduous process (Suff and Reilly, 2007: 18).

Outsourcing and insourcing

The rationale for outsourcing the provision of services to private or third sector organisations stems from a notion of competition being 'the driver of efficiency, quality improvement and innovation' (NEF, Unison, 2015:7), alongside the need to reduce cost and to 'tackle failings in public services' (Ibid). Outsourcing can take different forms in order to achieve cost efficiencies, including 'collaborative outsourcing' involving the joint procurement of a shared service by councils working with another local public body, or 'strategic service partnerships', whereby a single private organisation provides multiple services to a single council (Sandford, 2016).

The obverse of outsourcing is the practice of insourcing – returning the delivery of services to in-house providers – which may occur in the event of unacceptable contractor performance resulting in low levels of service user satisfaction, or as a strategic decision to restructure service provision (Sandford, 2016; APSE, 2009). Linked to our context for this paper, APSE (2009) state that services have been insourced in some cases as a result of the poor employment practices of private sector contractors resulting in unmotivated workforces contributing to poor performance – 'inferior terms and conditions [creating a two-tier workforce], and poor career development opportunities would appear to impact upon the quality of service delivered' (APSE, 2009:10). In addition, APSE case studies of authorities that had brought services back in-house showed that in some circumstances insourcing services had led to increases in service user satisfaction levels and efficiency savings and 'fairer terms and conditions for all employees and…workforce development and training opportunities' (APSE, 2009:11).

Trading, council companies

A rising number of local authorities have set up local authority trading companies (LATCs), which must be established if a council wishes to undertake trading activities for profit. Any profits from these activities can be re-invested in other council services (or employee remuneration) and such trading opportunities can provide important additional revenue streams and income generation (Sandford, 2016). The LGA's report 'Enterprising Councils' also suggests that local authority trading companies may enter a market in order to moderate prices for service users for essential services (where there is an absence of competition) (LGA, 2012, cited in Sandford, 2016).

However, a challenge for councils is to create in a trading company the sort of entrepreneurial culture that will deliver economic benefits when the ties back to the 'parent' local authority can still be very strong – for example in terms of staffing, work processes and risk management.

Mutuals

A further service delivery model is one in which council services are delivered through staff-owned companies or 'mutuals'. Under mutuals 'employee control plays a significant role in their operation' (Mutuals Taskforce, 2011; cited in Sandford, 2016:20). The Mutuals Taskforce (2011) report stated that 'employee engagement is found to be greater in such employee-owned organisations and that employee engagement is instrumental in improving service delivery: that is, greater employee engagement is an instrument for achieving a better service, with more satisfied users, lower costs and greater productivity in service delivery' (Mutuals Taskforce, 2011: 10).

As yet, there are not that many examples of truly mutual organisations operating in the public services arena despite the encouragement of the Cabinet Office and its Mutuals Support Programme. In 2014 the Government recorded a hundred new companies that had spun out of the public sector, delivering nearly £1.5 billion of public services and employing 35,000 people.

Table 1 provides a short summary of some of the key principles underpinning each service delivery model which may help identify the drivers and implications for a local authority reward strategy. This list is not exhaustive.

Table 1: Summary of principles underpinning service models

Service delivery model	Principles underpinning the model
Traditional model – major deliverer of services	Service improvement – responsive to service user needs Cost reduction
Shared services/partnering	Service improvement – responsive to service user needs, improved efficiency Obtaining broader expertise/skill sharing/knowledge transfer Income generation/cost reduction/effectiveness Leadership/culture change Employment relations change Employee involvement and empowerment/autonomy Employee innovation
Outsourcing/Insourcing	Service improvement – responsive to service user needs Quality improvement Cost reduction Service delivery innovation Structural change Fairness in terms and conditions (insourcing) Opportunities in workforce development and training
Trading, council companies	Income generation Service improvement/cost reduction Innovation Culture change Competition/market-led
Mutuals	Employee control Employee involvement and empowerment/autonomy Employee innovation Service improvement Employee engagement

What is a reward strategy?

Against this local government context, we must consider the concept of a reward strategy. Armstrong and Murlis (2007) define reward strategy as:

'…what the organisation wants to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals. It is a declaration of intent, which establishes priorities for developing and acting on reward plans that can be aligned to business and HR strategies and to the needs of people in the organisation.'

Lawler (1995) also presents an integrated view of reward strategy, which links three key dimensions: pay and reward policies should be aligned with and driven by the business strategy; they should be tailored to suit that strategy, structure and the other systems and culture in the organisation; and reward practices should be designed to influence employees to behave in ways that make the business strategy 'come alive' (Lawler, 1996:1) – see Figure 1.

In comparison to Lawler's model, Brown's reward strategy model (2015) proposes a more two-way employer/employee model of reward strategy, placing employee needs as equally important to those of the business, and essential to delivering the latter, as well as explicitly separating out the intended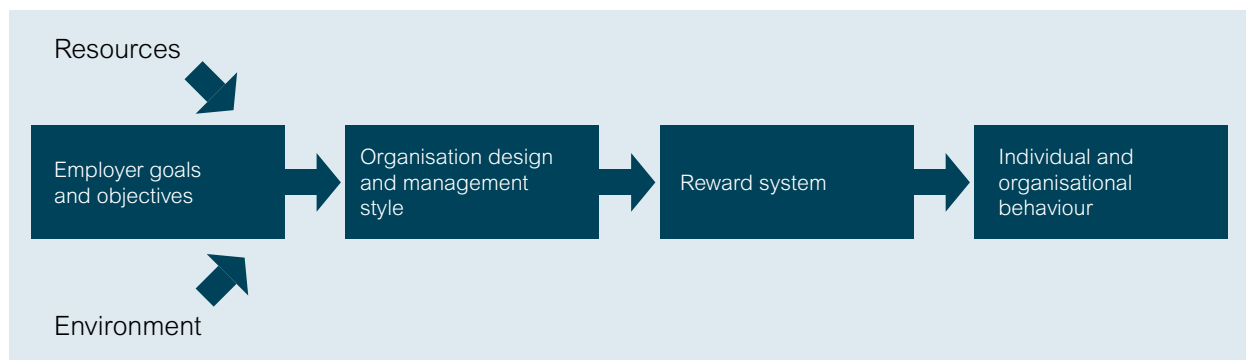 reward goals and strategy from the reward designs and practices; and encompassing four dimensions of total rewards in the design criteria (see Figure 2).

Other definitions of reward strategy refer to more forward-looking, change-oriented approaches seeking improved business alignment (Perkins and White, 2011), with Brown (2015) characterising reward strategy as having three clear dimensions:

• a clear and shared vision and direction

• a flexible and adaptable (total rewards) approach to designs and practices

• reward communications and management processes that meet employee needs (Brown, 2001; Armstrong and Brown, 2006, cited in Brown 2015).

Armstrong (2007) observed that 'reward strategies are diverse and so is the structure used by different organisations to define and present them' (cited in CIPD 2016a). It is suggested that reward strategy is not just the intended goals of reward policies, but also: the designs such as pay structures and bonus plans; and processes such as line management and communications used to put those policies into practice, as well as the effectiveness of their delivery (Armstrong and Brown, 2006). This builds on the point made by Purcell (2001) that a strategic contribution should include its execution not just design.

Figure 1: A model of strategic reward

Resources →

Employer goals and objectives → Organisation design and management style → Reward system → Individual and organisational behaviour

Environment →

Source: Adapted from Lawler, 1990 cited in Brown, 2015

Figure 2: Brown (2015) reward strategy model

Employer perspective

Organisation strategy
Organisation capability
Organisation structure

→ People/human resources stratigies and the employment 'deal' ←

Employee perspective

Demographics
Competencies
Values

↓

Total reward strategy

Pay | Benefits
Learning and development | Work environment

↓

Improved business results and aligned employee behaviours

Source: Brown, 2015

Aligning the reward strategy

The business and HR (workforce) strategies provide the foundations for an integrated reward strategy (see Figure 2). This involves ensuring that other key elements of the HR strategy, for example training, employee development, performance management and career progression, are not inconsistent with the proposed approaches to reward (Bevan, 2001). Overall, the literature suggests a reward strategy should:

1. Support and be derived from the business strategy.

2. Drive sustainable improvements in business performance.

3. Bring about and reinforce cultural and behavioural change.

4. Integrate with the rest of HR policy and practice.

5. Keep the pay bill under control (Bevan, 2001).

While approaches to reward strategy vary greatly, the CIPD (2016a) provides examples of the application of organisational principles such as:

• Pay structures and pay progression arrangements are designed to ensure that the values, behaviours, performances and attitudes that the organisation needs to be effective are rewarded and recognised. For example, linking individual pay progression with performance that is valued by the local authority, such as a customer focus.

• Using variable pay to encourage appropriate employee performance. For example, using bonuses to drive higher sales levels in council trading companies.

• Developing a pay policy that is competitive with the external labour market in order to recruit and retain key staff. For example, paying certain specialists or hard-to-recruit staff at the upper quartile level compared with the external labour market.

• Ensuring the 'vertical' integration of reward approaches with organisational goals, such as using performance-related pay arrangements to help increase revenues in council trading companies, as well as 'horizontal' integration of reward policy with wider HR policies. For example, ensuring that pay progression arrangements are aligned with the local authority culture as well as external factors, such as regulation.

This last point regarding alignment of reward strategy with both business imperatives and other HR practices is crucial if reward is to have any change leverage. If the reward strategy is disconnected from what the organisation wishes to achieve it will fail. If it is inconsistent with the other HR policies and practices it will deliver a muddled message to the workforce (eg individual performance related pay together with an emphasis on team collaboration).

For example, organisations need to ensure that their diversity ambitions and reward strategy align. Some forms of performance-related pay can have unwelcome equal pay consequences if not well designed – eg 'going the extra mile' might discriminate against the disabled or part-time staff. Job family pay systems that allow organisations to respond to different market requirements for the various occupational groups may import discriminatory practice – eg male manual workers may be paid more than female care workers doing the same weight of job in job evaluation terms.

This latter issue is complicated if there are multiple pay arrangements within the responsibility of the same employer, such as after taking over control of another council or the work of an external service provider (after insourcing).

Figure 3 summarises the different elements which frame a reward strategy into a single model.

Figure 3: A strategic model for reward

Source: IES, 2016

As shown, in the framing of the reward strategy, local authorities need to consider both internal and external influences such as:

- current reward practice and how it should change to align with current organisational strategy
- the views of key stakeholders (leaders, managers and employees)
- organisation structure.

The local authority will also need to take into account external influences such as:

- legislative and political context
- economic circumstances
- market practice and trends
- the regional and sectoral context as appropriate.

As Figure 3 shows, the perceived 'fairness' of reward is also an important element to consider in framing a reward strategy. Reward is a process that has to be carefully managed given the importance of 'procedural justice' – the process by which reward is introduced and managed – rather than in the level of the award and distributive justice to employee motivation. In local government, for example, varying levels of sharing or partnering can have an effect on employee attitudes to pay and reward and therefore, strategically focusing any changes to pay and rewards structures around 'fairness' might be seen as a 'good start' (Brown, 2010: 34).

Cox et al (2010) also suggested that reward strategies are often designed and applied with insufficient attention given to employee preferences for different types of reward. This may become more pronounced if the workforce becomes more diverse and accommodates a wider range of skill groups (eg ex health or commercial firms). Cox also criticised the absence of any employee voice in reward strategy development, in favour of greater considerations of the external market and business strategy (Ibid). Managers may lack knowledge in terms of how best to use reward processes to deliver the desired behavioural outcomes from employees which will support the delivery of the business strategy (Gerhart and Milkovich, 1992). Brown (2008) also stated that weak communications appear to be a critical 'Achilles heel' in the effective implementation of reward strategies. Research shows that even limited employee consultation and communications on reward system design and implementation makes a major difference to the success of outcomes (Bowey and Thorpe, 1983; Cox, 2005, cited in Brown, 2015).

The introduction of flexible benefits is one way by which an organisation can demonstrate that it accommodates employees' reward preferences more effectively. In some parts of the private sector, 'flex ben' has formed an important, if relatively to base pay, small part of the remuneration package. Much depends on what can be flexed – pension, holiday entitlement, company car – in judging the value of the scheme. More recently, 'mass customisation' or 'personalisation' have been terms applied to the process of recognising workforce diversity (Reilly, 2016) and effecting a closer link between reward and employee needs.

What will personalised reward entail beyond traditional flexible benefits or salary sacrifice schemes?

- Giving staff a pay budget to spend as they wish that might include not just the usual benefits but also base pay and bonus.

- Extending the above budget (or creating another) to include learning opportunities.

- Giving staff choice of when they draw down money from a budget, for example by using a debit card-type facility.

- Adapting performance pay to be delivered on the basis of accumulated points, air miles style. This is particularly effective as a recognition rather than incentive tool because it permits customers and colleagues to award points, then allows staff a wide range of ways to spend their money and time.

- Simply personalising the delivery of a reward – for example, handwriting a note of thanks rather than issuing a pro forma thank you.

- Allowing staff to trade work time for caring or for charitable/community activities.

It should at least be possible to recognise employee interests during the reward design phase and demonstrate that their views matter through the form of stakeholder consultation. There are, however, only limited published examples of employers engaging in closer dialogue with employees about reward choices. Nationwide Building Society was quoted by the CIPD (2007) as having developed a 'forced choice' survey of employees to establish how they prioritise different elements of reward, and at the retailer John Lewis, employee volunteers became members of the core team which reviewed and then re-designed their pay structure, helping to ensure that the subsequent changes reflected the needs of, and could be understood by, staff.

This helped to maximise the chances of successful implementation and operation (Brown and Purcell, 2007, cited in Brown, 2008).

The Hay Group, in the context of developing reward strategies for housing associations, stressed the importance of understanding what motivates different employees, stating 'most organisations recognise now that while a reasonably competitive reward package is important, it is not enough.

The new generations of people coming into the workforce are more demanding in terms of the leaders they want to work for, the culture and values of the organisation and the opportunities and quality of work on offer' (Hay Group, 2009:2).

Figure 4 shows how these different influences might combine and link strategy to practice – for example, the highlighted elements show the choices employers could take from the options on offer.

Figure 4: Framing the reward strategy

External drive	Business strategy	HR strategy	Reward strategy	Reward practices
• tight labour market • strong economy • close labour regulation	• growth • innovation • high value added • empowering leadership style	• recruit high level skills • high attention to retention • employee engagement • employee involvement • job autonomy	• reward sharing • employee choice • employee participation • single status	• variable pay • team pay • gainsharing • flexible benefits • total reward • job families
• economic downturn • loose labour marketing • limited regulation	• cost containment • retrenchment • stick to knitting • controlling leadership style	• workforce planning • right sizing • tight controls • directive performance management • stable tasks	• paybill control • simple pay systems • output performance driven	• individual performance pay • profit based bonuses

Source: IES, 2016

There are few research studies which provide an indication as to how more effective reward practices can be selected and developed by individual employers. As Rose (2014; cited in Brown, 2015) highlights, studies support a 'best fit' rather than 'best practice' interpretation, and suggest that it is worth the effort for employers to consider how their rewards can influence their employees to deliver their business goals (Brown, 2015).

As the literature has shown, the most popular models for developing reward strategies focus mostly on alignment between reward strategy and business strategy (Cox et al, 2010; Brown, 2001).

CIPD research (2012a), using Miles and Snow's business strategy typology[1], found that employers pursuing a 'prospector' strategy of innovation and change were more likely to take decisions relating to pay based on market information and to set pay levels in the top 10 per cent of the market to secure the best talent (a strategy which may outweigh cost concerns) and use competencies and skills as pay progression criteria than 'defender' firms with a cost driven strategy (CIPD, 2012a).

Prospectors are also less likely to use an individualised approach to base pay for management and other grades and are more likely to use broad-banded pay structures for managers and professionals. Conversely, defenders are far more likely to use pay spines than broad-banded structures for managers and professionals.

Overall, defender-type organisations were found to operate clear, transparent and hierarchy-based pay structures while prospector-type organisations take a more market-based approach to pay and operate performance-based reward systems (Delery and Doty, 1996, adapted by Marchington and Wilkinson, 2008; cited in CIPD, 2012). Whereas defenders, being typically more cost aware, will determine pay largely based on affordability concerns, prospectors use market-based approaches (CIPD, 2012a).

To provide an example, Transport for London, aligns its business strategy with its reward strategy. Its business strategy has key goals including placing the 'customer and user at the heart of everything we do'; expectations of contribution and high performance; and foundations of trust and openness. Its reward strategy includes three key messages linked to this business strategy:

- to reward to attract, retain and motivate people who use their skills and knowledge to deliver our objectives

- we will promote our behaviours and personal accountability through our reward and recognition systems.

We will recognise staff for good performance and high levels of achievement (Brown et al, 2015) – see Figure 5.

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1   Miles and Snow's (1984) market competition typologies: 'defender' and 'prospector'. Defenders operate in relatively stable markets for their products and/or services; they offer a narrow range of products and/or services and invest in maximising efficiency in existing operations. Process engineering, cost control and functional structures are characteristic in defender-oriented organisations. Prospectors on the other hand are market leaders, continually looking for product and market opportunities, often in completely unrelated fields. (CIPD, 2012a:).

Figure 5: Transport for London

Our vision

Our people making Every Journey Matter

Our culture shift goals

Expectation of contribution and high performance	Understanding of our purpose and the TfL story	Customer and user at the heard of everything we do	Foundation of trust and open conversations	People first when managing change
Recruit	**Manage**	**Reward**	**Develop**	**Engage**
We will take a long term view of our resourcing to effectively attract and select people from diverse backgrounds with the skills, knowledge and behaviours we need. We will recruit a blend of permanent and non-permanent labour appropriate for each business area. We will provide a seamless induction to new starters and existing staff moving to a new role.	We will lead and motivate our staff effectively, including through periods of change. We will empower people to take decisions at the right level at the right time. We will train managers so they have the tools and skills to manage effectively. We will provide regular honest feedback on good and bad performance. We will support the smooth running of the business when people leave TfL.	We reward to attract, retain and motivate people who use their skills and knowledge to deliver our objectives. We will promote our behaviours and personal accountability through our reward and recognition systems. We will recognise staff for good performance and high levels of achievement.	We will identify and develop talent at all levels of the organisation. We will align development to our business goals and support staff who want to improve skills, knowledge and experience. We will ensure equal opportunity in our approach to development. We will equip the business with the skills needed to delivery change and continuous improvement.	We will inform, inspire and involve our people and connect every single person that sits under the TfL umbrella. We will embed our ethos of Every Journey Matters to drive a customer focussed culture. We will put people first when managing change. We will build a culture of high performance and contribution. We will build a culture of trust and open conversations. We will build a successful infrastructure to allow speed and route to market with our internal communications.

Our strategy

Keeping London working and growing and making life in London better by making every journey matter

Our purpose

Source: Brown et al, 2015

Also, when BT implemented a series of major reward changes between 2003 and 2006, it did so on the basis of a very clear set of reward goals, namely:

- clarity and transparency
- business linkage and reinforcement
- external market focus
- performance-related and differentiated pay
- fair and equal rewards
- personal choice and flexibility.

This agenda drove the changes to grading and pay structures, pay reviews and total rewards, and was used to assess their effectiveness (Armstrong and Brown, cited in Brown, 2008). It should be noted that, as is common, the reward objectives contain a mixture of near universal design principles (eg clarity and fairness) and those that may be specific to the organisational strategy at the time (hence the reference to business linkage and reinforcement).

Brown (2015) observed that pay and rewards may, in certain situations, have the potential to impact on employee behaviour and performance in order to deliver the organisational strategy. Moving from one business strategy to another with associated changes in reward is not always that easy to achieve, not least because it will almost certainly require a cultural shift. For example, you might move from a cost containment to a customer service orientation by sending the signal, through your bonus system, that customer satisfaction is king only to find that you have over-incentivised. This reinforces the need to see strategic alignment in a holistic way with reward part of the change process along with other features. (See Corkerton and Bevan, 1998, for an example of reward realignment.)

Moreover, there appears to be a lack of conceptual frameworks, research methods and studies to draw valid and consistent conclusions and to provide practical support and guidance to managers as to which reward policies and practices are more

effective in which specific situations (Gerhart and Rynes, 2003; Pfeffer and Sutton, 2006; cited in Brown, 2015).

In diverse and devolved organisations, the reward strategy is often a common set of objectives and success criteria that stakeholders have bought into, even though the scheme designs may vary in each particular business unit according to particular local needs. For example, a large water utility, cited in Brown (2001), used a detailed set of common reward principles to underpin its strategy, against which all corporate and different business unit schemes were periodically audited. These included:

- strategy driven: pay and reward policies aligned with corporate and local business strategies, reinforcing the achievement of business goals
- performance-based: clear relationships to operate between contribution, performance and reward, related to results achieved
- value-based: pay and reward policies aligned with corporate values, reinforcing actions and behaviours necessary to realise the corporate vision
- common framework: pay and reward policies to operate within a common strategic framework
- business and market-driven: pay and reward policies to reflect local business needs and circumstances, eg cost structure, ability to pay, employee profile etc.
- flexible: policies to be responsive to changes in the business and external environment
- recognition: the full range of financial rewards should be used to recognise employee success
- fair: pay and reward policies should be fair, equitable, defensible and legally compliant
- open: reward information should be openly communicated with employees (Brown, 2001:111).

As shown, the more the underlying aims of the reward strategy can be brought out the better as this can highlight the supporting reward practice, as illustrated in Figure 2. A business driver of greater commercialisation of service delivery is likely to mean in HR terms developing commercial behaviours in the existing staff (how can one incentivise that?) and the hiring of external expertise (requiring more outwardly facing reward practices such as market based pay).

Principles underpinning delivery model drive the reward approach

As noted earlier, the principles underpinning any dominant service model adopted by a local authority (should there be one) should be supported by its over-arching approach to reward and then in the detail of its practices.

For example, local authorities pursing innovation-led approaches, may wish to encourage creativity, a certain degree of risk-taking and collaborative behaviour (Bevan, 2000). Pay and rewards may have the potential to impact on such employee behaviour and performance in order to deliver the business strategy and therefore to reinforce these behaviours, the authority may choose to use a mix of collective and individual rewards focusing on medium-term performance, supported by broadly banded jobs, with high investment in learning and development (Bevan, 2000).

In shared services councils, harmonising existing terms and conditions may carry substantial risks of cost escalation (resulting from a 'harmonise up' mentality). Yet, introducing a new rewards approach to genuinely reward innovation and contribution and recruit talent from the private sector could potentially bring greater returns and be what senior management are increasingly looking to in the councils of the future (Varney et al, 2015:24).

Local authorities pursuing service models which have pushed a structural change may wish to use this opportunity to alter the way they describe and reward performance, manage progression and the way they define job roles. Bevan (2001) suggests that structural change frequently leads to fewer but broader grades. A reward strategy can also guide cultural change. This may be underpinned by a need to encourage employees to be more performance orientated and reduce automatic pay increases for poor performers (Bevan, 2001).

Local authority service models creating new business units (eg trading companies) may require the use of different pay mechanisms, as far as equal pay constraints will allow. For example, there may be a greater emphasis on the non-pay benefits, or supplements may be used to attract and retain specialist or commercial skills. Increasing financial pressures on local authorities may also encourage an emphasis on performance or contribution-related pay increases to secure best value and any renewed emphasis on quality perhaps needs to be considered consistent with an approach that rewards contribution and individual or team excellence rather than length of service (Bevan, 2001).

Aligning business and reward/HR strategy

Schluler (1988) suggested that 'cost reduction, quality improvement and innovation strategies required different patterns of behaviour by employees in order to execute them effectively. Therefore different sets of HR and reward practices should be employed to develop and recognise these employee characteristics' (Brown, 2001:27). Examples are shown in Table 2.

Table 2: Aligning business and reward/HR strategy

Core Business strategy	Employee characteristics	Reward/HR practices
Cost reduction	Predictable, repetitive behaviour Short-term focus Relatively independent behaviour Greater focus on quantity; moderate focus on quality Results-focus Narrow skill application Low job involvement Low flexibility for change	Low participation Explicit job criteria Narrow career paths Results criteria Short-term criteria Few incentives Hierarchical pay Little training provision
Quality improvement	Predictable, repetitive behaviour Intermediate-term focus Some co-operative behaviour High quality concern Modest concern for quantity High concern for process Modest flexibility for change Modest skill application High job involvement	High participation Explicit job criteria Narrow career paths Mostly results criteria Mostly short-term criteria Some group criteria Some incentives Egalitarian pay Extensive training provision
Innovation	Creative, innovative behaviour Long-term focus Co-operative, interdependent behaviour Modest concern for quality Modest concern for quantity Flexibility to change Broad skill application Modest job involvement	High participation Implicit job criteria Broad career paths Process and results criteria Long-term criteria Some group criteria Many incentives Egalitarian pay Extensive training provision

Source: Brown, 2001

Table 3 provides examples of how certain local government service delivery models align with different reward approaches.

Table 3: Using reward to support organisational objectives

Examples of local authority service model	Example objectives	Reward strategy	Rationale
All models/hybrid models	Fair and transparent reward	Reward structures ensure similar treatment to internal comparators and appropriate relativities between roles and different performance levels.	Employee perception is that pay decisions are made fairly and that the organisation lives by its values.
	Recognise and reward excellent performance	Incentive and bonus schemes; merit-related salary reviews; and/or non-financial recognition, rewards recognising contribution and individual/team excellence rather than length of service. Pay progression linked to performance that is valued by the local authority, such as customer focus.	Promotes and incentivises delivery of organisational objectives and desired behaviours.
	Customer focus	Incentivise delivery, quality and service through reward and recognition programmes that promote customer service practices and personal accountability. Individual performance-related pay, bonuses and non-financial recognition for high levels of customer service. A total reward approach can promote pride and affiliation in the organisation which is recognised by customers.	Good service user experience shape opinion and develops a reputation for excellence. By ensuring employees are engaged this will help improve the customer experience.
	Cost reduction	Emphasis on performance-related/ contribution related pay rather than length of service to achieve best value. Define measures of return on investment in reward and monitor the impact of reward initiatives. Build the reward capability of HR and line managers through investment in training to obtain the best value from reward initiatives. Control over expensive pay progression systems. Flexible working options which allow employees to be engaged more in generating savings, eg changed work patterns.	Enables effective short-term budgetary control and helps to protect the longer term financial future of the organisation, in light of increasing financial pressures. Ensures that decision-making in reward is consistent with business strategy and generates value.
	Employer of choice	Adopt a total reward approach which supports values and social responsibility to promote pride and affiliation in the employer. Develop reward policy which mirrors/ defines best practice in the sector/ market.	Promotes positive perceptions of the organisation as an employer and reinforces satisfaction with reward.

Examples of local authority service model	Example objectives	Reward strategy	Rationale
Trading, council companies	External market focus	Benchmarking determines a market position for reward in line with business strategy – individuals' reward may be related to contribution and/or market. Variable pay (bonuses) drives revenue/higher sales.	Employee perception that they are competitively paid compared with the external market considering role and level of performance. Variable pay encourages appropriate employee performance.
Trading council companies/ mutuals	Innovation-led	Encourage/reward innovation and achievement through recognition schemes, appraisal criteria and competency and skills frameworks for pay progression valuing creativity and collaboration. A particular investment in learning and development. Focus on non-pay benefits or supplements to attract and retain specialist or commercial skills or pay such staff at the upper quartile level compared with the external labour market.	Encouraging innovation enables the trading organisation to gain maximum leverage from the intellectual capital of its workforce, to differentiate itself from competitors and to establish an identity that will help attract high-performers or specialists.
Shared services/ partnering	Expertise-led	Harmonised terms and conditions and workforce development and training opportunities. Appropriate relativities between roles and different performance levels.	Staff receiving different reward packages doing similar work may be brought into close proximity and differences in employee terms and conditions of work can be controversial and potentially demotivating (Grimshaw et al, 2002:482). Harmonisation can help to create a shared identity amongst staff when changes are made without alienating the workforce (Sullivan, 2008) by communicating value and recognition to existing and potential staff (LGA, 2012: 4).
Insourcing	Re-structure of service/ internal function delivery	Job roles, reward, progression and non-pay benefits are positioned against the market in such a way as to attract (reintegrate?) and retain specialists and those with commercial skills.	Harmonisation with own staff is important in what is in effect a reacquisition. However, commercial skills (with potentially a high market value) should be protected.

Source: IES and XpertHR, online

The features of the organisational structure will also influence the success of the reward strategy and conversely, reward can reinforce important features of the organisational design (Brown, 2001). Structural considerations such as the level of centralisation or devolvement; the number of layers in the organisational structure; and the spans of management/supervisory control will influence the reward strategy (Ibid.). 'Many organisations have found, in a structural and a reward sense, that a balanced approach, attempting to combine the benefits of local flexibility [such as local business and market fit, speed of decision making etc] and empowerment with the efficiency gains of central coordination, is the optimum position' (Brown, 2001:76). This position also means that different units can proceed at different speeds in taking on devolved reward responsibilities.

Brown (2001) cites an example of a water company where the heavily centralised pay and benefits arrangements had become ineffectual in addressing the diverse business and employee needs of the customer service staff in call centres, field water operations, design engineers, security system and sales staff. However, the business unit managers 'recognised that the effects of rapid abdication of reward responsibilities…could create significant problems' (2001:59). Business unit managers emphasised the need for a clear HR strategy and performance framework before they could effectively develop their own approaches and also recognised the importance of common support mechanisms. An intermediate approach was therefore introduced in which terms and conditions are negotiated and managed at business unit level, however business units cooperate to address common issues, such as the introduction of annual hours' arrangements to provide better service flexibility.

A common, flatter pay structure has been retained but the pay ranges for each band are set locally to meet individual market needs. Bonus schemes have also been developed in each business unit but within a corporate policy framework that supports their use (Brown, 2001).

Whilst most reward experts would favour a best fit rather than a singular best practice approach, it should be acknowledged that there is evidence of the universal benefits of certain reward methods.[2] Some research, by way of illustration, has indicated correlations between higher performing companies and the use of particular reward practices. For example, Thompson's (2000) research in aerospace companies, discerned higher profit levels per employee in companies with pay practices such as performance pay and flatter pay structures. Guest et al (2003) also found performance-related pay, shared ownership and profit sharing amongst a group of 18 high-performance work practices associated with higher added value per employee (cited in Brown, 2015).

Barber et al (1992) found that in a financial services company flexible benefits choices increased employee satisfaction with their rewards. Another study indicated that the pay premium required to recruit was halved if an employer possessed an attractive total rewards package (Conference Board, 2001, cited in Brown, 2015).

Brown and West (2005) conducted a study to identify from a sample of 15 service sector organisations whether those displaying the highest levels of customer service were differentiated by their reward strategy. The study found that five of the organisations excelling against the customer service measures used in the research were differentiated in their reward practices. They all used measures of customer satisfaction in performance-related pay systems and were twice as likely to use individual performance-related pay and also use bonuses and non-financial recognition.

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2   For the debate on best fit versus best practice, see Tamkin P (2004), High Performance Work Practices, IES, http://www.employment-studies.co.uk/system/files/resources/files/mp36.pdf

The study found other management and HR practices, such as career development, employee involvement, performance management and work-life balance, were also critical in 'creating the supportive context for employees to commit to serve the customer, and created a strong sense that the entire organisation "practices what it preaches"' (Brown and West, 2005: 30, cited in Brown, 2015).

In other words, non-financial rewards played a critical part in building the 'totally rewarding environment in which staff felt valued and financially rewarded for delivering high levels of customer service' (Brown, 2015: 46).

The question that organisations should then ask is how appropriate these 'best practice' reward strategies are to their situation. Clearly, some are immaterial in a public sector context because the particular reward option – profit sharing, share schemes – is not generally available to them, or because the business goal is irrelevant – profit maximisation (noting of course that these reward practices might be just right for councils' commercial ventures). However, picking out the business driver that is important (eg customer service) and seeing what the evidence is on effective reward practices would be useful pre-design research. Moreover, one can be creative in using rewards typically found in commercial settings (like gainsharing) in the public setting to recognise efficiency, cost saving and productivity, if not straight profit.

Total reward approaches

Total reward forms part of a strategic approach to reward for many employers. Reward strategies that encompass the full range of financial and non-financial factors that engage employees deliver a total reward approach (CIPD, 2016; Brown, 2015). For example, an organisation might adopt a total reward approach, encompassing the provision of new 'training programmes together with flexible working options, as well as more traditional aspects of the pay and benefits package, in order to recruit, retain and engage the high quality staff that are best placed to help it secure its business objectives' (CIPD, 2016: online).
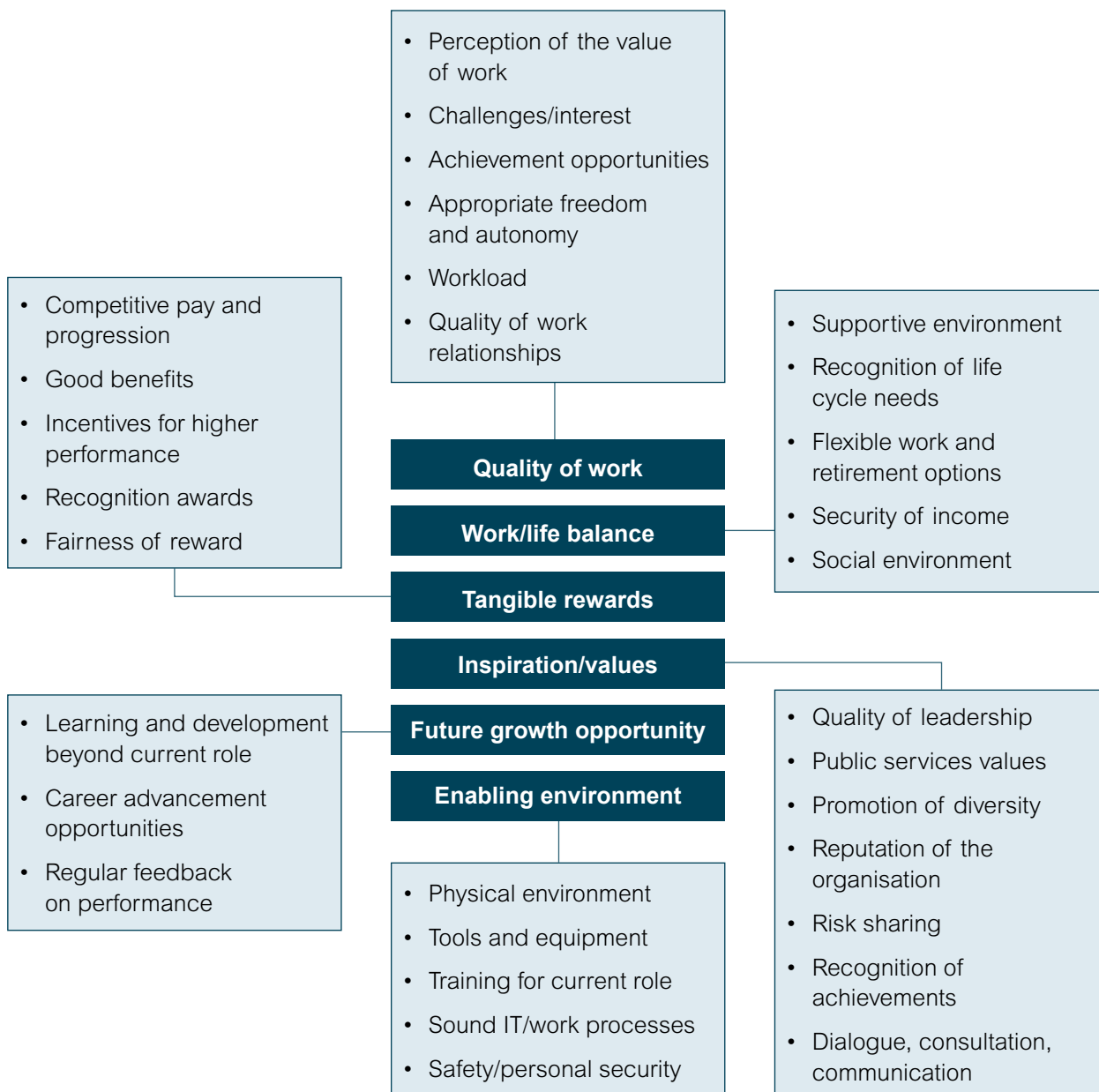
Total reward is of interest because it encompasses all types of reward – the non-financial as well as financial, indirect as well as direct, intrinsic as well as extrinsic (Armstrong, 2007). It describes a value proposition which embraces everything that people want from the employment relationship and should be developed and implemented as an integrated and coherent whole (Brown and Reilly, 2013).

Of all the elements that comprise total pay, recognition and benefits are best positioned to address individual need and preference. Flexible benefits offer individual choice and help with the flexibility required by a diverse workforce. Aon Hewitt found that high-performing companies are more likely to articulate a total rewards strategy and differentiate themselves on non-financial rewards (cited in Brown and Reilly, 2013).

The LGA (2012) stated that the approach to total rewards in local government 'has been somewhat piecemeal and has begun to stagnate because of budget restrictions' (LGA, 2012:8). It found that in 2010, 28 per cent of local authorities had implemented total reward or were planning to in the next two years, with about one third of authorities never having actively considered total reward (Ibid).

Total reward impact will vary by the group of employees and the organisational setting. Crudely put, commodity traders or sales people are more likely to be motivated by financial incentives than research scientists or public servants. This has led UK governments to show interest in the total reward approach and the Hay Group was commissioned to produce a model for use by departments and agencies.

Figure 6: A total reward model

	Perception of the value of work Challenges/interest Achievement opportunities Appropriate freedom and autonomy Workload Quality of work relationships	

- Competitive pay and progression
- Good benefits
- Incentives for higher performance
- Recognition awards
- Fairness of reward

- Perception of the value of work
- Challenges/interest
- Achievement opportunities
- Appropriate freedom and autonomy
- Workload
- Quality of work relationships

Quality of work

Work/life balance

Tangible rewards

- Supportive environment
- Recognition of life cycle needs
- Flexible work and retirement options
- Security of income
- Social environment

Inspiration/values

- Learning and development beyond current role
- Career advancement opportunities
- Regular feedback on performance

Future growth opportunity

Enabling environment

- Physical environment
- Tools and equipment
- Training for current role
- Sound IT/work processes
- Safety/personal security

- Quality of leadership
- Public services values
- Promotion of diversity
- Reputation of the organisation
- Risk sharing
- Recognition of achievements
- Dialogue, consultation, communication

Source: Hay Group and Cabinet Office, 2007[3]

Some of the early reward strategy proponents are strongly critical of total rewards approaches for encouraging the spread of expensive benefits packages with no relationship to organisation or individual performance (Zingheim and Shuster, 2012). A second area of criticism has been this market-copying rather than strategy-driven approach to total reward and a lack of business impact. As Torre and Sarti (2013) note, the risk is that this additional benefits provision and 'ratcheting' increases labour costs without impacting on employee engagement and performance, which is the key goal of strategic HRM (Brown, 2015).

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3   Now archived at http://webarchive.nationalarchives.gov.uk/+/cabinetoffice.gov.uk/total_rewards/framework/

Conclusions and recommendations

This review has suggested that a reward strategy should deliver the 'best fit' between business needs and structures and reward practices. Councils are providing services in a very different way to 20 years ago, yet the prevailing reward models are from that era. Rewards are understandably 'sticky' and difficult to change, but this means rewards may not be reinforcing the delivery of council goals in the most effective way. Against a background of a requirement for greater organisational 'agility' with much wider use of partnerships and outsourcing, are councils sufficiently rethinking their reward practices? Are they putting in place practices that offer greater degrees of flexibility – eg in shifting more remuneration from base to variable pay? The latter (through profit sharing and financial incentives) may suit spin-off companies, if not the main council. Similarly, where harmonisation is the obvious solution to dealing with staff on different terms and conditions of employment in similar/contiguous areas, are councils looking at what other organisations have done in dealing with mergers? For example, some companies have changed their benefits package or introduced greater flexibility within it, in order to accommodate the partners' different offers.

Moreover, councils may not be meeting the needs of key sections of the workforce, especially younger people. The workforce from which councils are recruiting has also changed in becoming much more diverse, reflecting a wider social transformation.

Are local government reward models responding appropriately? This will become an imperative once local government starts to recruit in any numbers: what is the offer that the sector is making? Is this appealing to the constituency it seeks to attract? Reward strategies are often applied with insufficient attention given to such employee preferences for different types of reward and in the context of a diverse workforce in local government, consideration needs to be given, for example, to meeting the potentially differing needs of staff in commercial roles and those delivering more traditional services. However, in designing their reward approaches, councils need to ensure equal pay considerations are prioritised in the design in order not to repeat the costly mistakes of the past.

Total reward is a concept that has been much in vogue in order to demonstrate the range of benefits on offer, besides pay, and to illustrate what individuals derive from working for an employer beyond tangible recompense (such as job satisfaction and doing worthwhile work). To date, local government has not been very good at communicating this offer, certainly compared with the private sector where much effort has gone into describing the employer brand or employee value proposition.

There are common reward challenges across all councils – costs, performance alignment, pensions etc. – but different reward issues are typically raised according to the service models and emphases adopted.

There tends to be a predominance of a market-copying approach to reward plans, rather than implementing pay and reward policies which reflect local needs and circumstances, therefore strategic reward thinking must emphasise the need to consider the level of alignment in each employer and whether changes might better fit with business and employee needs, even if this means taking a bold option that may initiate fundamental change. This means eschewing flavour of the month type solutions and building evidence of what the need is and what the best solution might be. Experimentation might mean more trials and testing out ideas on a small scale before rolling out a big change programme.

This is an evolving process rather than a set of fixed policies and there is no 'best practice' approach and certainly no 'one size fits all' reward approach (CIPD, 2016; Brown, 2015). Local authorities should establish reward strategies that articulate the aims of the various reward elements (CIPD, 2016) and how they are integrated with the objectives of the service model. Nonetheless, local government should be aware of what has worked well elsewhere, and in what circumstances, especially where it is trying to use private sector approaches in the way services are configured.

In summary, the reward strategy should be based on clear principles, define the broad objectives for reward and have clearly planned goals based on the local authority's objectives and HR requirements; alongside a flexibility to change when circumstances require it (Evans, 2008). In addition, the reward strategy should engage with staff as much as possible in its development and be complemented with sufficient employee communications to impress on staff what behaviours the council is rewarding and why (CIPD, 2016).

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