

Evolution in Reward: a practical approach



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Most people agree that one of the pre-requisites for a successful business is to achieve alignment between reward and business strategy. This is an ongoing process as employers adapt to a continuously changing business environment. KPMG LLP operates across the UK with more than 9000 partners and staff, providing a wide range of accountancy, tax and other financial advisory services. This article covers ways in which KPMG's approach to reward has evolved as its business model has changed over the past few years. That evolution is evident across different elements of the firm's reward strategy - in base pay structures, in its approach to variable pay, and in its presentation of the overall package.

Total Reward

One way in which the firm has adapted its approach to reflect changing business needs is in its presentation of the total employment deal. Professional services firms such as KPMG have long been successful in attracting graduates and turning them into qualified professionals, but often the challenge has been to hold on to sufficient numbers to resource requirements at more senior levels. In addition, the firm finds itself increasingly recruiting specialists from industry to resource its advisory functions.

So it has made sense for the firm to maximise the value it derives from all aspects of the employment deal in order to be able to compete with employers across a very broad spectrum of sectors. The firm has sought to do this by developing a model of total reward that positions financial reward as one part of an overall deal, which includes the firm's culture, its offices, the scope for personal growth and the general sense of how it feels to work for the firm.

This model is being used as the basis of an employee survey to help the firm understand the strengths and weaknesses of its employment package, as well as to underpin management training on retaining key employees. Other tools which communicate the value of what the firm offers, such as total reward statements and flexible benefits, have been in place already for a number of years.

Base Pay structure

The firm has also re-evaluated specific elements of the reward package to fit in with its business strategy, and has changed its approach to base pay structures and to variable pay as a result.

Like many professional services firms, the firm has a history of linking salaries very closely to pre- and post-qualification. This model tended to become more flexible after about five years' PQE, but up to that point, if you knew someone's years pre- or post- qualification and merit rating, then you pretty much knew what they were paid. Pay arrangements at KPMG were also strongly localised, with small differences office-by-office.

More recently, KPMG has developed a structure that allows a disciplined approach to performance-related pay, and reflects regional and market-related variations. The model varies by function, but has a number of defining features. For each job grade there are five regional bands. Offices are grouped into bands after a close analysis of the market data. Each band has an entry range, a mid-point and a ceiling. The range at entry allows differentiation on promotion. The mid-point is where a strong performer would expect to be after two to three years in the grade, and the ceiling allows the firm to set expectations as to salary progression for the grade. Within those parameters, salary increases reflect individual contribution.

The benefits are already being realised. These pay structures enable the firm to be more open with employees about how salaries are set, and to reinforce messages on performance. They also help employees to make career decisions. And they have helped the firm address one potential obstacle to greater transparency, a concern about the lack of consistency in salary decisions.

Importantly the new structures are addressing some fundamental requirements of the business: the desire to reinforce the firm's strong performance culture, the need quickly to build teams that span functions and locations, and the need to pay competitively, for example.

Variable pay

The approach is coupled closely with a variable pay strategy that creates scope for flexibility. Under the old model, the norm was to pay overtime, rather than other forms of variable pay such as bonuses.

Now, overtime has gone, and in its place are bonus plans geared to the firm's financial performance. Individual awards are then tied closely to their performance during the year. Base salaries and bonuses are managed jointly to allow the firm greater flexibility in how rewards are delivered.

The framework of the bonus plans and the changes to base pay structures have reinforced a strong performance culture through pay. And variable pay now forms a much greater proportion of the firm's employee cost base, so that the firm is better placed to adapt to shifts in the economic cycle.

Conclusions

Looking ahead, the challenge will be to embed these changes fully in the firm's day-to-day operation, for example by helping people managers to explain the pay structures to their teams, and encouraging more openness with individuals (particularly where the conversation is likely to be difficult). For other areas of the firm, salary structures need to be much more fluid to reflect highly dynamic employment markets. All these developments are part of a continuous process of adaptation as the firm responds to an evolving business environment.

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