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# THE RELATIONSHIP BETWEEN TOTAL REWARD AND EMPLOYEE ENGAGEMENT

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## AN EVIDENCE-BASED REVIEW



**This report was commissioned by and developed in partnership with NHS Employers. It was written by Duncan Brown, Amanda Callen and Dilys Robinson from IES.**

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## EXECUTIVE SUMMARY

In early 2016, NHS Employers commissioned the Institute for Employment Studies to conduct an evidence review in the areas of total reward and employee engagement. The review would look at the nature of any relationship between the two and whether there is a link to organisational performance.

This report contains our findings and it aims:

- to summarise existing research on the links between total reward and employee engagement
- to draw out the implications of our findings for employing organisations in the NHS in terms of how they can best leverage that relationship.

After introductory comments the report is divided into three sections:

- the context
- the findings
- conclusions and implications.

### The context

In section two, we review and define the concepts of total reward and employee engagement. Both are broad, all-encompassing concepts with many different definitions, informed by varied disciplines such as:

- economics
- sociology
- psychology.

While there is a significant number of practitioner comments and assertion, we highlight a lack of a significant evidence basis in research for either concept, which is particularly marked with respect to total reward, and a lack of evidence regarding the nature of any relationship between them.

A key reason for this is the divide between academics and practitioners. We conclude that, in practice, HR practitioners and managers may have a lack of knowledge and guidance in terms of how best to use total reward to deliver the behaviours and feelings from employees that will support high performance (Gerhart and Milkovich, 1992). This can lead them to rely on anecdotal evidence, tried and tested 'rules of thumb', or even 'fads and fashions'.

The separation between HR and reward practitioners, who can find it difficult to produce evidence as to the effectiveness of their methods, and academics 'failing to answer the questions that managers need answering' (Davis, 2015), has led to continuing controversy and debate.

Bloom and Milkovich (1995, p. 18,19) believe that, given the lack of research evidence for reward management practice, 'a better blend of theory, research and practice holds the promise of expanding knowledge about the forces and processes that shape reward systems'.

Despite these questions, the total reward concept, and its links with employee engagement, does hold out the potential to bridge some of these divides.

## The findings

Our review of the literature that is available (mostly grey or practitioner literature using robust methodologies), indicates the complexity of any relationships between total reward practices, employee engagement and performance outcomes. They appear to be multi-directional, influenced by a range of other variables, and highly study/situation-specific. We consider the overall nature of any relationship, as well as the specific dynamics of it in terms of:

- fair pay
- flexible benefits
- reward communications
- total reward statements
- recognition and appreciation practices.

## Conclusions drawn from reviewing this evidence

- High levels of employee engagement can deliver positive organisational benefits.
- Appropriate reward practices and processes, both financial and non-financial and managed in combination, can help to build and improve employee engagement, and badly designed or executed financial rewards can hinder it.
- The broader the definition of total reward that is adopted, including a wide range of extrinsic and intrinsic, financial and non-financial rewards, then the more significant the potential impact on employee engagement appears to be. This raises the definitional issue as to how far total reward and employee engagement are overlapping concepts.
- In a context where employees feel 'totally rewarded' for their contribution, and valued and recognised by managers, then higher levels of employee engagement and higher levels of performance are more likely to occur, particularly in customer service and care settings.
- Reward is also one of the bundle of HR practices that is also associated directly with higher organisational performance.
- Besides using reward to attract and retain employees, this review would suggest that organisations can design approaches to reward that are likely to promote employee engagement and thereby to support and further improved organisational performance.

## Conclusions and implications

The evidence gathered makes clear that there is no total reward 'silver bullet' that will result in employees being automatically engaged and both extrinsically and intrinsically motivated, leading to performance benefits flowing throughout the NHS (Brown and Reilly, 2013).



The reward-engagement relationship is complex, situation-specific and generally involves multiple factors and drivers, financial and non-financial. This complexity highlights the importance of a total reward approach in engaging the diversity of the workforce and meeting the wide variety of employee needs, and explains why NHS Employers has been carrying out work in this area.

Based on our research, IES has proposed a five-step model that employers can use for developing a total reward strategy (Reilly and Brown, 2008).

### Five-step model

1. Begin with a deep examination of the present strategy, organisation and culture, and discover how the leadership want these to be in the organisation. Followed by developing an understanding of what brings people to work, keeps them with the organisation and motivates them to perform while there, allowing an engagement model to be constructed.
2. Having constructed an engagement model, look at the number of different 'deals' that apply in the organisation for different types of employee and what the significant components might be.
3. Design and amend reward programmes to leverage the different aspects of engagement for the various staff groupings. Total reward in most organisations maybe segmented to take account of key employee differences.
4. When development is complete of new or amended reward arrangements designed to improve employee engagement generally in the organisation or for specific groups, their level of effect and success should be measured.
5. Given that bundles of HR practice are likely to deliver the best results, a holistic, broad approach to total reward and people management is required, integrating HR practices in a purposeful way.

### Areas in need of further research across the NHS and wider

- More multi-stakeholder and multi-disciplinary studies comparing the views of employees and managers on financial and non-financial rewards, their influence on employee behaviour and the barriers to managers in creating totally rewarding work environments.
- More in-depth surveys of employee attitudes to their total rewards, supported by focus group discussions to help to understand why they feel as they do.
- More time-series case studies following the progress of specific total reward strategies and changes in individual employers.
- More studies which specify and assess the effectiveness of total reward strategies and changes. This is still a relatively under-researched area (Armstrong, Brown and Reilly, 2010, 2011).
- Research would also be beneficial into the nature and forms of reward communications that employees perceive to be most effective.

## 1. INTRODUCTION

### Background

Against a backdrop of continuing public sector austerity, increasing workloads and pay restraint, and alongside a more diverse and demanding workforce and re-emerging recruitment and retention issues in professions such as nursing, the concept of total reward has been gaining prominence in recent years (Brown and Reilly, 2013).

It has been promoted by HR professionals and consultants as a way for employers to communicate the full range of rewards that their employees gain from employment with the organisation, and to maximise the perceived value of rewards at a given cost level to the employer.

UK data suggests that following the post-crash decline in UK living standards, pay and total reward are rising up the engagement and motivational agenda for employees, as satisfaction with pay declines (Aon Hewitt 2014). Only a third of UK employees in the 2014 Aon Hewitt study, for example, felt that their pay was fair, and a significant proportion reported a decline in the wider quality of working life experienced.

The background of austerity and increasing workloads has led to concerns that employee engagement levels of NHS staff is eroding. The 2014 NHS Staff Survey results, published in February 2015,<sup>1</sup> showed a worsening picture on perceptions of pay.

Down on previous years are satisfaction with pay, likelihood of recommending the NHS as an employer and the feeling of value from the organisation. It also revealed the first decline in overall staff engagement levels since engagement measures started.

The 2015 results, published in February 2016,<sup>2</sup> interestingly, show a recovery in the overall engagement and particularly the pay satisfaction results, although dissatisfaction with pay and conditions is still obvious in various parts of the NHS.

### Report aims

NHS Employers provides a wealth of information on total reward and on employee engagement to help employers address these two important issues.

This review aims:

- to summarise existing research on the links between total reward and employee engagement
- to draw out the implications of our findings for employing organisations in the NHS in terms of how they can best leverage that relationship.

The key questions that this evidence review is designed to investigate are:

- What impact does the total reward package have on employee engagement and performance? What is the evidence for any relationship between these areas?
- How do the relationships and linkages work? Is there a positive or negative relationship (motivators versus hygiene factors)?
- What factors influence these relationships?
- How can employers in the NHS best leverage total reward to influence employee engagement levels?
- What is the current state of UK employers on total reward communications?



## Methodology and work stages

Extensive work has been carried out in the NHS, by the National Institute of Health Research (NIHR), NHS Employers, IES and others, to review the literature on the drivers of employee engagement, both in the academic and practitioner literature (e.g. Bailey, Madden, Alfes, Fletcher, Robinson, Holmes, Buzzeo and Currie, 2015).

As we explain more fully in section two, while there is extensive literature on both employee engagement and total reward, we have found that their relationship is 'an under-emphasised, under-researched, under-leveraged and still a misunderstood area' (Reilly and Brown 2008), and is mainly discussed in the practitioner literature.

Our report is far more heavily dependent on practitioner source than academic. One of the conclusions that we draw in section four is the need for more research in the NHS and wider into just what the links are, how they operate and what can positively influence them at the employer level.

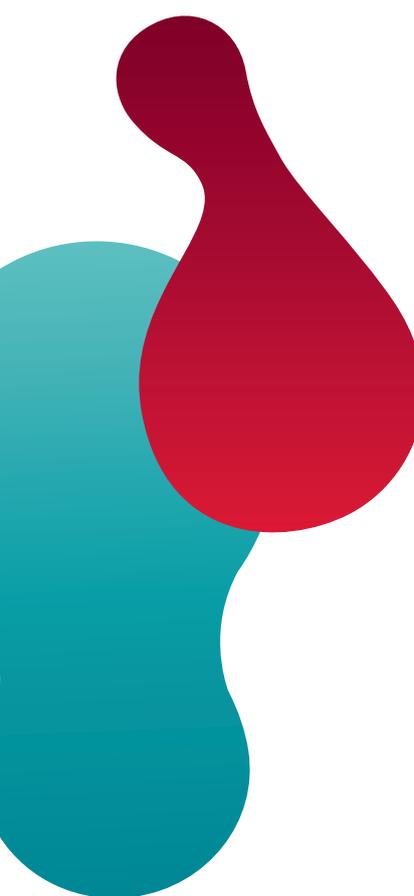
### Undertaking this review, we have:

- had an initial briefing and planning meeting with relevant managers at NHS Employers
- gathered relevant internal NHS information on total reward and employee engagement
- reviewed literature and evidence in the areas of total reward and engagement research, and the relationship with each other and organisation performance. The literature search initially focused on high quality, peer-reviewed articles published in a range of relevant databases, including:
  - Business Source Premier
  - Directory of Open Access Journals
  - Emerald Insight
  - jSTOR
  - ProQuest
  - Sage Journals
  - Taylor & Francis Online
  - Wiley Online
  - XpertHR
- reviewed the most recent articles, varying search terms used to encompass the diverse definitions of engagement and total reward. They included terms such as benefits, communicate, communication, engagement, employee, employer, employment, incentives, management, reward, commitment, extrinsic, intrinsic, organisation, organisational, pay, and total reward(s). There is relatively little material in the academic literature and have relied heavily on good-quality practitioner sources
- used feedback from NHS Employers' managers from a review of initial findings contained in a draft report
- produced this final report.

## Report structure

Our report is organised in the following way.

- Section two details the context for this work, defines our terms of reference and discusses why this relationship has been under-researched and under-emphasised in the past.
- Section three presents our findings and the material from our evidence search and analysis.
- Section four summarises the conclusions from our review, with the main implications for practitioners in the NHS and future research drawn out.



## 2. THE CONTEXT - WHY TOTAL REWARD AND EMPLOYEE ENGAGEMENT?

### In this section of the report we:

- define the concepts of total reward and employee engagement, illustrating the variety and complexity of both terms
- illustrate some of the main theories and models used to describe and understand the two concepts and their operationalisation in the NHS
- consider why there has been little research carried out into the relationship between them.

### Total reward

In this section, we review the different practitioner and academic definitions of total reward, as well as summarising the NHS's own definitions and applications.

### Definitions

Total reward is defined by the CIPD as encompassing 'all aspects of work that are valued by employees, including elements such as learning and development opportunities and/or an attractive working environment, in addition to the wider pay and benefits package'. (CIPD 2015b).<sup>3</sup>

The concept is much older than the term – Adam Smith in *The Wealth of Nations* in 1776 refers to the total utility of work and how employers could offer less pay if the jobs provided were interesting. Edward Cadbury explained his firm's insistence on worker housing and benefits by describing profitability and employee welfare as different sides of the same coin (Priestley, 1934, pp. 94-95).

In addition, from their origins, ideas of reward and HRM strategy have incorporated the dimension of 'lateral integration' of reward and HR policies with each other, in order to create a consistency in people management, as well as vertical integration with the business strategy (Beer et al, 1984). As Armstrong and Murlis (2007, p. 12) explain:

*'... the total reward concept emphasises the importance of all aspects of the rewards package as a coherent whole...account is taken of all the ways in which people can be rewarded and obtain satisfaction through their work, linking financial and non-financial aspects'.*

Manas and Graham (2003) emphasise it includes all aspects of reward – indirect as well as direct, intrinsic as well as extrinsic.

Total reward ideas can also be linked to motivational and engagement theories, as this thinking has generally involved an assertion particularly of the non-financial and intrinsic aspects of rewards, with Pfeffer (1998, p. 112) for example arguing that 'people do work for money – but they work even more for meaning'.

As Bloom and Milkovich (1995, pp. 5-6) point out, the growth in popularity also stems from the fact that in a more knowledge and service-based, human-capital-driven economy, financial rewards alone cannot extract the behaviours that distinguish outstanding from ordinary performance. Offer a 'broad bundle of valued rewards' in return for the 'valuable cluster of employee contributions' to the business. In addition, as O'Neal (1998) describes, with an increasingly diverse workforce this also gives the opportunity to individualise packages to suit the differing needs of employees.

Benkhoff (1997) applies social identity theory to explain that employee engagement requires an integrated strategy congruent with the employee's own values, with varied rewards to suit the different needs of employees.

The total reward idea has grown considerably in popularity over the last 15 years, linking in with concepts such as employee engagement and 'Best Places to Work' initiatives.

## Models and components

Many categorisations and models have been developed to illustrate research and categorise total reward ideas. The Armstrong and Murlis definition (2007) provides the key to understanding the breadth and depth of the concept. Information provider E reward talks about total reward as a philosophy, a set of principles, or a 'mindset' (E-Reward, 2008).

Zingheim and Schuster (2001), in rather similar vein, suggest that the concept of total reward comprises four components.

- 1. Compelling future:** Employees want to be able to draw self-esteem and satisfaction from working for a particular organisation. They want to feel that the organisation has a positive vision of the future and a set of values that they can support.
- 2. Individual growth:** Employees want to have opportunities for training and development and the chance to apply it. Organisations need to provide meaningful training that will prepare employees to fill the roles that the organisation requires.
- 3. Positive workplace:** Employees want to work in a pleasant environment. Roles and workplaces should be designed around employees, with a focus on facilitating their development. Employees need to feel that what they do is important and to understand how their role relates to the organisation's goals.
- 4. Total Pay:** Total pay comprises basic pay, performance-related pay, benefits, and recognition or feedback. Employees want total pay designed around their role and their needs. Flexible benefits offer individual choice required by a diverse workforce.

This approach is used in models that consultancies have developed to describe total reward such as the **Towers Perrin Watson model** and **Hay Group total reward model**.

Total reward, then, appears to be an all-encompassing concept that covers not only all kinds of value for the employee, but also consideration of the commitment to the employee that financial and non-financial rewards and benefits imply, and how the full set of valued factors will be communicated.



## Summary of the various definitions of total reward

- **Total reward** – is all forms of ‘reward’ in its broadest sense that attract, retain and motivate people.
- **Total reward statements** – are an enumeration of the quantifiable, largely financial benefits to the employee of different aspects of their pay and benefits.
- **Total remuneration** – is the adding together into a single figure (usually for benchmarking purposes) all the quantifiable elements of pay and benefits.
- **Employee value proposition** – is a term used to denote the balance of the total reward and benefits that employees receive in return for their performance at the workplace.
- **Employer brand** – concerns the development of corporate and organisational identity to attract talented individuals and to ensure that both they and existing employees identify with the organisation, to produce the desired outcomes for the organisations.
- **Employer of choice** – for example, ‘we want the employment relationship and experience to reflect our status as a world class university and to be recognised as an ‘employer of choice’ by existing staff, within the local area and wider higher education sector’ (university employer).
- **Flexible benefits** – for example, ‘the means by which individual employees can tailor their individual salary and benefits package to meet their individual needs within an agreed compensation cost’ (pharmaceutical company, Stokes, 2004).
- **Voluntary benefits** – ‘enable organisations to offer extra perks, discounted products and services to the workforce at little or no extra cost to the company. These benefits are paid for by the employee, sometimes through payroll’ (Lovewell-Tuck, 2011).

## Total reward and the psychological contract

The ‘psychological contract’ has been defined as ‘the perceptions of the two parties, employee and employer of what their mutual obligations are towards each other’ (Guest and Conway, 2004).

In 2011, IES conducted a survey of its HR network members, and other organisations, about the psychological contract. The components of the offer varied, but pay and reward that is fair was often considered a core element of the contract, with almost half of respondents putting salary foremost in their list of items.

According to Milkovich and Bloom (cited in Thompson, 2002) workers are motivated and engaged by a much broader mix of:

Transactional rewards (tangible) financial elements:

- pay
- bonuses
- benefits

Relational rewards (intangible) non-pay and benefit elements:

- learning and development
- organisational culture
- employee involvement.

The CIPD (Thompson, 2002) suggests that there has been a shift from relational to transactional contracts as organisational change has undermined old certainties and reduced employees' trust in their employers.

### Younger employees

Are perceived to be more likely to respond negatively if their 'transactional contracts' are breached. Example items for transactional obligations include performance-based pay and regularity of pay rises (Macneil, 1985, cited in Freese and Schalk, 2008).

### Older employees

Are more likely to react to unfulfilled 'relational contracts'; items of relational obligations include feedback about performance and career opportunities and development. Again, this implies the desirability of some flexibility in a broadly defined reward package.

Strategies, which focus on managing only the financial elements of the psychological contract, are not considered sufficient for stimulating higher levels of motivation to produce optimal results (Thompson, 2002). Emphasising pay as the primary reward encourages people to stay for the wrong reasons and this undermines intrinsic motivation (Pfeffer, 1998), and 'managers often neglect other, non-financial aspects of the motivation environment' (Thompson, 2002: p 43).

Thompson (2002: p 41) concludes that:

*'Total reward processes can help you clarify the psychological contract and contribute to the development of a more productive and mutually supporting relationship'.*

## The breakdown and component parts of total reward

The CIPD reward survey (2013) identified the current composition of total reward spend between pay and benefits.

The most common split is:

- 90 per cent pay / 10 per cent benefits (43.1 per cent), followed by
- 80 per cent pay / 20 per cent benefits (26.0 per cent).

It also found that only 15 per cent of organisations issue total reward statements to employees. Later CIPD research indicated that total reward statements are more common in the private sector and in very large organisations, presumably as the range of financial benefits is more extensive (CIPD, 2015a).

However, the CIPD reward survey (2013) indicated that public services were the least likely sector to predict an increase in employee benefits over the following year, and found to be more likely to hold or reduce spending on benefits, presumably for reasons associated with continued budget restrictions and pension changes. The survey also found limited use of total reward statements and a retrenchment in offering flexible benefits.



In the public sector, including the NHS, the relatively large proportion of total reward tied up in defined benefits pensions also limits the flexibility of employers to offer other benefits choices.

The CIPD reward survey (2013) identified that pension scheme benefits featured high on what financial benefits employees value the most. Working for some private providers of healthcare on aspects of total rewards and the employer brand, we have found that their lack of an equivalent pension to the NHS is perceived by management and employees to put them at a significant disadvantage in recruitment and retention competition with the NHS (IES, 2015, unpublished).

Less tangible benefits valued by respondents to the 2013 CIPD survey included flexibility, enhanced leave and childcare vouchers. Interestingly, there was a total absence of career development and training support as a popular benefit among employees, possibly because they did not regard it as an aspect of reward.

Employee recognition as a non-financial benefit in the CIPD reward survey (2013) found that some 35.3 per cent of organisations offer individual recognition awards (such as achievement certificates and gifts), which is an increase on the levels in the 2012 and 2011 CIPD surveys (33.9 per cent and 33.1 per cent respectively). The survey also found that the public and third sectors are far more likely to use non-monetary recognition and incentive schemes (CIPD, 2013).

## The NHS perspective on total reward

NHS Employers defines total reward as:

*'... an approach to thinking about the attractions of working for an NHS organisation in a holistic manner – taking into account not just the financial package, but the long-term financial reward and the intangible benefits gained by being part of the NHS.'*

The two-year pay freeze followed by a decade of one per cent awards, coupled with the reform of NHS and public sector pensions, reinforces the requirement to ensure that employees are fully aware of the total value of their benefit packages. In time, employees might select the benefits that are best suited to them through the introduction of flexible benefits arrangements.

The NHS Operating Framework for 2011/12 reflected the requirement to consider employees 'total package' rather than just their salary.

*'With a two-year pay freeze applying from April 2011 for those earning more than £21,000, NHS employers are encouraged to support maintenance of recruitment, retention, morale and motivation of staff by ensuring they are aware of their overall pay and reward package and the benefits available to them.'*

**Department of Health, 2010**

The Department of Health adopted the objective that, from April 2012, all NHS staff receive a total reward statement, supporting the future introduction of flexible benefits, and these statements are now available to all staff.

Another important element of the context was that, in the Hutton review on public sector pay, one of the 2013 recommendations urged public service employers to take greater account of pensions 'when constructing remuneration packages and designing workforce strategies' as it forms a key part of 'total reward.'<sup>4</sup> Employees may not be aware of the range of rewards and benefits they have and so do not have a good idea of the value of their overall reward package. Yet 'total reward' has a role to play in changing employee perception about their reward and benefit package. It also helps employers in the NHS to evaluate and strengthen their strategy towards staff recruitment, retention and engagement in a challenging financial climate' (NHS

Employers website).<sup>5</sup> NHS Employers also suggests that employers consider offering employees greater flexibility and choice in their total reward packages as an important feature of adding value to the package without additional cost.

Individual total reward statements (TRS) are now available to all NHS employees on the TRS portal. However, although this is a popular site, not all employees have accessed it to date.

In February 2013, the possibility of creating a total reward strategy that better meets the particular needs of individual NHS organisations was enhanced when the NHS Staff Council agreed changes to the national NHS terms and conditions of service handbook, which covers staff on Agenda for Change contracts in England.

Local employers gained more control over a range of benefits, which should enable them to construct a total reward strategy more responsive to their local employment markets.

Whether this is happening to the extent now permitted is not clear, and pay restraint may have dampened enthusiasm for local reward strategies and initiatives. The national total reward statements include the facility for a local component, though not all trusts have utilised this function to date.

## Engagement

### Defining engagement

There is a variety of definitions of employee engagement; in fact, the Government-commissioned report, *Engaging for Success* (MacLeod and Clarke, 2009), identified more than 50 different definitions. This presents one of the challenges to researchers in trying to research the concept.

#### Practitioner definitions

IES (Robinson, Perryman and Hayday, 2004) built a definition of engagement with NHS organisations in London and a range of 46 other employers, as follows:

*'Engagement is a positive attitude held by the employee towards the organisation and its values. An engaged employee is aware of business context, and works with colleagues to improve performance within the job for the benefit of the organisation.'*

The CIPD has several different definitions of employee engagement. One, that reflects the complexity of the concept, is that engagement is:

*'... being positively present during the performance of work by willingly contributing intellectual effort, experiencing positive emotions and meaningful connections to other.'*  
CIPD, 2013<sup>6</sup>

This definition gives three dimensions to employee engagement.

- 1 Intellectual engagement – thinking about the job and how to do it better.
- 2 Affective engagement – feeling positive about doing a good job.
- 3 Social engagement – actively taking opportunities to discuss work-related improvements with others at work.

Engagement has clear overlaps with the more exhaustively researched concepts of commitment and organisational citizenship behaviour, but there are also differences. In particular, engagement is two-way and organisations must work to engage the employee, who in turn has a choice about the level of engagement to offer the employer. Organisations must work to engage the employee, who in turn has a choice about the level of engagement to offer the employer.



IES found that attempts to raise engagement levels are likely to struggle, unless 'building blocks' are in place. These building blocks are:

- good quality line management
- two-way communication
- effective internal cooperation
- a development focus
- commitment to employee wellbeing
- clear accessible HR policies and practices to which managers at all levels are committed (Robinson et al, 2004).

### Definitions from the academic literature

The evidence around engagement reveals a complexity and confusion within the academic literature concerning the definition and operationalisation of engagement. This conceptual uncertainty is perhaps to be expected given that the notion of engagement is relatively recent, being traced back to as recently as 1990, when William Kahn's seminal paper (Kahn, 1990) was published in the *Academy of Management Journal*.

Bailey et al (2015), through their analysis of the literature, identified six categories of definitions, and the categories grouped under three headings.

- 1 Engagement as a state
- 2 Engagement as a composite
- 3 Engagement as a practice.

- **Personal role engagement** – according to this view, engagement is the expression of an individual's preferred self during the performance of work tasks. This originated in the work of Kahn (1990), and includes researchers who have sought to operationalise his theoretical framework.
- **Work task or job engagement** – including the work of the Utrecht Group (Schaufeli et al, 2001) who have focused specifically on the notion of engagement with work tasks (as opposed to engagement with the organisation). According to this view, engagement is a multi-dimensional state with cognitive, emotional and energetic/behavioural attributes experienced by employees in relation to their work. One measure, the Utrecht Work Engagement Scale (UWES), has been developed and validated, with multiple variants in use. The measure has been widely adopted within the academic literature on engagement in the context of health, and a number of academics recommend that the Utrecht conceptualisation of engagement is the most relevant to the nursing context. UWES is the most frequently found measure of engagement within the academic literature we have reviewed.
- **Self-engagement with performance** – one measure has been developed that regards engagement as the extent to which high levels of performance are salient to the individual (Britt et al, 2005).
- **Multidimensional engagement** – drawing on the work of Saks (2006) who distinguishes between engagement with work as distinct from engagement with the organisation as a whole.

### Engagement as a composite

Drawing on the work of various consultancy firms and researchers who regard engagement as a broadly defined positive state in relation to the organisation, this approach is what is commonly referred to by HR practitioners and managers as 'employee engagement' or 'organisational engagement'. Examples include the Gallup Q12 measure, IES's own engagement measure, and Aon Hewitt's 'Say/Stay/Strive' approach.

### Engagement as practice

Scholars within the HR manager field have begun to focus on engagement beyond the UWES measure, and there is emerging literature on engagement as an employment relations practice (Jenkins and Delbridge, 2013). Studies falling under this heading are to date qualitative and there is no specific scale or measure.

The dominant definition of engagement which informs published academic research is that engagement is a multi-dimensional psychological state experienced by the individual in relation to their work activities, and the most widely adopted measure of this is the UWES (Bailey et al, 2015).

Associated with this, there has been a debate over whether engagement is a trait, a state, or a state with trait-like properties (Schaufeli, 2013a). Recent diary studies (e.g. Kuhnel et al, 2012; Petrou et al, 2012; Sonnentag et al, 2012) that have examined the fluctuations in engagement levels through the working day suggest that engagement is a state that is susceptible to variation depending on environmental factors. Engagement may be directed towards individual work tasks or be conceived as a collective, team-level experience (Salanova et al, 2005; Schaufeli and Salanova, 2011).

### Engagement with the organisation

Most studies of engagement are predicated on the assumption that individuals experience the state of engagement in relation to their work; it has been proposed that engagement can be directed towards the employing organisation (Saks, 2006). Although only explored in a very small number of academic studies, it suggests intriguing possibilities about the status of the engagement construct which may be of particular interest to practitioners.

It is worth noting that the final perspective, 'engagement as practice' is a newer and emerging area of interest (Bailey et al, 2015) and one that is of potentially considerable interest to practitioners. This field has so far yielded a very small number of qualitative studies, yet some engagement thinkers believe this may prove a more productive field of investigation as it brings together the concerns of practitioners with the longstanding traditions of employee relations scholars (Townsend et al, 2013, in Bailey et al, 2015).

### Mechanisms of engagement

Bailey et al (2015)'s review of the evidence found that the overriding theoretical framework used to 'explain' engagement as a psychological state is the job-demands resources framework (JD-R). This perspective is based on the view that resources (both personal resources and job-related resources) serve to energise people, and foster high levels of engagement as part of a motivational resource-gain process, but that job demands spark a health impairment process that inhibits engagement (Schaufeli, 2013a).



We will see in the following section that perceptions of pay satisfaction and fairness seem also to relate to the level of job demand and work intensity.

Bailey et al found a second relatively widespread theory used in the literature. A social exchange theory (Alfes et al, 2013 a and b) based on standards of reciprocity, such that it is argued that employees with positive perceptions of how their employer views them would be more likely to respond by investing personal effort into their work in the form of engagement.

Importantly for practitioners looking for evidence on which to base decisions about how to increase engagement, the job demands basis of understanding engagement fits with the engagement as psychological state definition of engagement. As discussed in section three, those items in the NHS Staff Survey, which showed a decline in 2014 are not those related to job engagement, but to organisational engagement, such as intention to leave and likelihood to recommend the employer to others.

A large body of research based on organisational engagement does exist, but has been carried out almost exclusively by consultancies, research organisations and employers themselves – namely, those who do not typically publish in academic journals. To ensure the useful insights generated from this work are captured, the more robust practitioner or grey literature findings are included in this review alongside those from academia.

### Definition of engagement in the NHS

While the introduction of total reward statements was perhaps the most significant practical action on total reward taken in the NHS to date, the NHS Staff Survey is probably the most significant initiative that has been taken to embed and inform thinking on employee attitudes and, more recently, engagement.

The annual NHS Staff Survey is the largest survey of staff opinion in the UK and may be the largest in the world. Questions are grouped around the key areas highlighted in the **NHS Constitution Staff Pledges<sup>7</sup>** and include:

- appraisal and development
- health and wellbeing
- staff engagement and involvement
- raising concerns.

On staff engagement, the survey looks at the three dimensions:

- motivation and satisfaction
- involvement
- willingness to be an advocate for the service.

It takes the scores across all three of these dimensions and converts them into an overall staff engagement score, which is an index of staff engagement in the organisation.

Employees in the NHS have traditionally scored high on levels of motivation and satisfaction but with variable levels of involvement and advocacy. After its introduction, overall engagement scores improved but 2014 saw the first overall decline in engagement levels (see next section), albeit with a recovery in 2015.

The survey consists of 30 core questions and includes in question five an item on pay level satisfaction – although, as noted below and in keeping with many similar

surveys, it contains very few questions on broader financial rewards. It becomes more relevant and informative to considerations of total reward (and vice versa) the more broad that concept is defined.

### Question five also includes questions on:

- the recognition I get for good work
- the support I get from my immediate manager and from my work colleagues
- the opportunities I have to use my skills
- the extent to which my organisation values my work
- the opportunities for flexible working patterns.

### Motivation, engagement and total reward

To gain an understanding of the how engagement relates to motivation, which has been considerably explored in relation to total reward, it is important to understand the distinction between the two types of motivation: intrinsic and extrinsic.

- Extrinsic motivation is a concept triggered by external factors and pertains that an activity is done in order to attain some separable outcome - a reward. If the outcomes are removed, the motivation will be gone (Ryan and Deci, 2000).
- Intrinsic motivation, on the other hand, is defined as the doing of an activity for its inherent satisfactions rather than for the reward it will bring (Ryan and Deci, 2000).

In other words, extrinsically motivated employees work for what they can get out of it, but intrinsically motivated / engaged employees believe in the activity itself. Herzberg et al's Two Factor Model (1959) found that factors involved in producing job satisfaction (and motivation) are distinct from the factors that lead to job dissatisfaction. Motivators, the source of job satisfaction, are intrinsic to the job and include achievement, recognition for achievement, the work itself, responsibility and growth or advancement. Hygiene factors, which include pay, are extrinsic to the job and are a potential source of job dissatisfaction (cited in Morris and Maloney, 2005).

The implication is that the financial aspects of total reward may not lend themselves to being leveraged to increase organisational engagement but can be managed in such a way as to decrease aspects of organisational dis-engagement. We consider this in more detail, and the research evidence regarding it, in section three.

Motivation is defined by Armstrong (1999) as an objective-directed behaviour – a reason for doing something. Individuals will be motivated only when what is required from them is likely to allow them to attain an objective and something they value – a reward.

Reward can then be considered an effective motivator for the length of time necessary for an individual to achieve their immediate objective but it is unlikely that employers can motivate employees in the mid to long-term using financial reward alone (Armstrong, 1999). Deci et al (1985) concluded from their detailed



review of the evidence that ‘strategies that focus primarily on the use of extrinsic rewards do, indeed, run a serious risk of diminishing rather than promoting intrinsic motivation’ (cited in Chamorro-Premuzic, 2013).

This has been a key argument for the move in large employers like the NHS to adopt an integrated total reward approach across financial and non-financial rewards, to maximise the appeal to the intrinsic as well as the extrinsic aspects of staff motivation and to engage better with employees.

## **Total reward, engagement and the challenges**

It may be anticipated that there would be extensive literature to choose from in this review given the popularity of the two concepts of total reward and engagement.

There is a lack of relevant studies particularly in the academic research literature, which is why we have had to rely so heavily on practitioner literature in this review. A number of factors help to explain this shortage of studies, which leads us to express caution with conclusions drawn from our findings in section three.

## **Problems of definition, evidence and controversy**

There are the problems of definition of both of the terms of ‘total reward’ and ‘employee engagement’, which can make carrying out valid research studies problematic. Wright’s (2009) conclusion as to the drivers, benefits and risks of total reward approaches is that ‘there is little systematic research in this area’. Torre and Sarti (2013) are critical of the main components of the construct and the lack of validated measures and tools, seeing management practice as leading research in this area.

Is total reward, as Armstrong et al (2008) ask, primarily about non-pay rewards? Or is it a personal choice of rewards in an increasingly diverse workforce (Kaufman and Feters, 1981; Lawler, 2011)? Or, could it be about creating a strong employment brand with everything available in the employment relationship (O’Neal, 1998)? Or, is it a global philosophy or a specific HR and reward management technique?

There is similarly a shortage of academic, peer-reviewed research on employee engagement looking at demonstrable links between what people say they value and measures of their organisational engagement. According to Guest (2013), most efforts to operationalise engagement under this heading have failed to demonstrate its validity. He argues that the concept ‘needs to be more clearly defined or abandoned’.

Although the JD-R is the cornerstone of academic theorising about work engagement, doubt has been cast over its status as a theory. For instance, Bargagliotti (2012) argues that the JD-R is a transactional model that cannot explain behaviour and motivation in complex or adverse situations such as medical emergencies. She states that the JD-R model ‘relegates the dedication of nurses, a distinguishing characteristic of the profession, to being a transactional commodity that occurs because someone else dispenses resources’ (p. 1416).

The evidence that resources boost engagement while demands deplete engagement, affecting the reward / effort balance is by no means clear-cut. Studies have shown that demands can reduce or increase engagement, or have a neutral effect (De Braine and Roodt, 2011; Gan and Gan, 2013; Sawang, 2012; Inoue et al, 2013).



Aspects of total reward are also controversial as an approach in their own right. Some practitioners and academics are strongly critical of total reward approaches for encouraging the spread of expensive benefits packages with no relationship to organisation or individual performance (Zingheim and Schuster, 2012). Related areas of criticism have been of a market copying rather than differentiating approach to total reward, and a lack of impact. As Torre and Sarti (2013) note, there is a risk of the additional benefits provision resulting in increased labour costs without affecting at all on employee engagement and performance.

Two-thirds of employers in one CIPD recruitment study claimed to have acted to improve the attractiveness of their total reward package and employer brand in the prior 12 months (CIPD, 2007a). Flexible benefits packages appear to have become the norm in large UK employers (Aon Hewitt, 2014), again illustrating the tendency for 'sectoral convoys' (Arrowsmith and Sissons, 1999) and institutional pressures and market practice to drive the adoption of reward practices (Trevor and Brown, 2014). Wright (2009) finds little impact on recruitment and retention and believes that the high transaction costs will restrict the further spread of total reward approaches in the UK.

Holbeche (2014) goes further and notes that the balance of power has shifted to the advantage of employers since the financial crash of 2008/9, with some regarding total rewards and employee engagement however achieved as a 'luxury for the good times'. Green and Whitfield (2009) note the intensification of work and decline of employee autonomy evident in the Workplace Employee Relations Survey findings over the last 30 years; and Wood and Bryson (2009) imply that total rewards and employee engagement approaches are associated with the decline in levels of unionisation and pay bargaining.

Tahmincioglu (2004) contends that total reward approaches risk demotivating many employees and being interpreted as a cynical attempt to appease them in times of low or no pay increases, restructuring and redundancies, which might be regarded as something of a risk for the NHS in the current climate. Even apparently attractive total reward flexibility, such as salary sacrifice arrangements and the opportunity to take cash instead of benefits, can be controversial in the NHS setting.

### **The separation between research and practice, economics and psychology**

A second important factor is the separation between researchers and practitioners in both areas. As we have seen, most academic work has focused on definitions of engagement as an individual state, whereas the explosion in popularity in employers has been driven by surveys and based on the concept of engagement with the organisation, and as practised and influenced by policies such as total reward.

Criticising the lack of an evidence base for much reward management practice, Milsome (2006) argues that research may seem like a lot of work, but if people are the organisation's greatest asset then surely more solid evidence of which total reward practices add value and which do not is vital? From an academic perspective in the business management field, Eckhardt and Wetherbe (2014) believe academics have become increasingly disconnected from practice, partly due to research funding being driven by publication in the highest-ranking academic journals.



Finally, both among academic researchers and practitioners there is evidence of a clear division between those concerned with the extrinsic and intrinsic aspects of total rewards, with more financially oriented pay and reward functions and faculties having little interaction with the more psychology-based researchers and internal communications staff concerned with engagement work and surveys.

Gerhardt and Rynes (2003) believe that the dominance of economics in the management and business field helps to explain this neglect in research and practice, with a limited range of acceptable research methods in economics and employee preferences and views being regarded as 'too difficult to measure' (p55). Meanwhile, they believe that academics in the fields of finance and economics, and senior managers in employing organisations, tend to regard pay as in classical economics as 'the only incentive'.

Psychology and motivational theories on the other hand have tended to downplay the influence of formal pay and reward systems. Content theorists of motivation such as Alderfer (1972) and McClelland (1987) do not even address pay in their categorisations of motivating factors, while cognitive evaluation theorists (Deci and Ryan, 1985) note problems with all external motivational tools that do not support intrinsic needs such as autonomy. Werner and Ward (2004) note the problems of discipline specificity in studying reward processes and argue for more inter-disciplinary collaboration, particularly between psychology and economics.

More recently, organisation justice theory has placed greater emphasis on the value of employee involvement (Folger and Konovsky, 1989) and the importance of a financial and non-financial rewards approach in motivating employees (Cox, 2005).

Despite the common presence of pay and reward practices in the 'bundle' of high performance work practices, which a number of studies find to be associated with employee engagement and organisation performance (see section three, eg Combs et al, 2006; Rayton, 2012), most theories of engagement still downplay the role of total reward, particularly pay, as an influence on employee engagement and performance.

For example, reward is not one of the four 'levers' which MacLeod and Clarke (2009) identify as key for employers to raise levels of engagement, although non-financial recognition is one. Nor is it highlighted by Truss et al (2006) in their conclusions on overall engagement levels in the UK – although dissatisfaction with pay was the second most important factor associated with low engagement in their research, behind front-line manager behaviour.

This divide is especially evident in employer engagement survey tools such as the NHS Staff Survey, which generally gather very little information on employee views on pay and total reward, reflecting the experience and orientations of their designers.

## Section summary

The wide range of definitions of both terms and the separation between HR practitioners and managers unwilling to support research into the effectiveness of their methods, and business academics 'failing to answer the questions that managers need answering' (Davis, 2015), has led to continuing controversy and debate in both of these areas.

In practice, managers may have a lack of knowledge and guidance about how best to use total rewards to deliver the outcomes from employees, which will support high performance (Gerhart and Milkovich, 1992). They are therefore more likely to rely on 'fads, fashions', and 'rules of thumb'.

Bloom and Milkovich (1995, pp. 18-19) believe that, given the lack of research evidence, 'a better blend of theory, research and practice holds the promise of expanding knowledge about the forces and processes that shape reward systems'. For all its failings, the total reward concept, and research into its links with employee engagement, holds out the promise of bridging some of these divides.

Ever since the famous Hawthorne studies carried out by Elton Mayo (1933) there has been debate about just how important the financial rewards on offer are to employee attitudes and performance. Researchers and practitioners are turning to the total reward concept when discussing the link to employee engagement precisely because it does appear to combine the financial incentive and the non-financial, intrinsic aspects of reward, which can be difficult to separate in practice, and which both appear to require consideration when looking for improvements in employee engagement.

After summarising the emerging research evidence in the next section, in the final section we draw out the implications of our work for future research, as well as the practical implications for NHS managers and HR practitioners.



## 3. THE FINDINGS: EMPLOYEE ENGAGEMENT AND TOTAL REWARD

### In this section of the report we:

- look at the evidence for overall relationships between employee engagement and total reward and their impact on performance outcomes
- examine evidence from specific aspects of the relationship: employee perceptions of pay fairness, benefits, communications and recognition/appreciation practice
- summarise all of the evidence reviewed.

### Links between total reward, engagement and performance

#### What is the evidence?

For all of the issues described in section two around defining and measuring total rewards and employee engagement and their impact, there is emerging an increasing body of practitioner evidence that higher levels of employee engagement are associated with certain positive behavioural and performance outcomes. These include:

- lower staff turnover, that is, engaged employees are 87 per cent less likely to leave an employer (Corporate Leadership Council, 2004)
- better attendance, that is, engaged employees have lower sick leave (Truss et al, 2006)
- improved safety (Vance, 2006)
- higher individual productivity/performance, that is, the engaged employees perform 20 per cent better than the average (Gibbons, 2006)
- improved customer service (Salanova et al, 2005).

There is also evidence that total reward and HR practices similarly can exert a positive influence on aspects of an organisations performance. This is a conclusion drawn, for example, by Combs, Liu and Hall's (2006) meta-analysis, which includes 92 published research studies showing a link between a basket of 'high-performance HR practices' and organisation performance. They identify three sets of common and influential HR practices:

- those that increase skills
- empower employees
- improve motivation.

Aspects of the total reward package are potentially involved in all three.

Some research studies also suggest that rewards can be one of the practices *directly* affecting organisational performance. In a meta-analysis of studies predominately from the United States, Kling (quoted in Bosworth 2005) concluded that compensation linked to worker or firm performance seemed to improve labour productivity. Reward for performance (individual and group-based performance pay) was also found, inter

alia, to drive organisational performance in work by Ashton and Sung (2003) who looked at a wide range of research. Guest et al (2003) includes individual performance-related pay and profit-related bonuses as two of the 18 HR practices associated with employee commitment and high performance. Thompson (2000) found that certain HR practices that build skills, motivation and ability, including share ownership, competence-based pay, team rewards and incentives, are associated with high organisational performance.

In health, Brown, Sturman and Simmering (2003) found, across a sample of 333 general hospitals, that higher average pay levels were associated with greater efficiency, though there was no relationship with the use of performance-related pay. Summarising international research on teacher's pay, the OECD (2012) reported that lower pay levels PRP systems were associated with higher student performance, but higher pay levels had more impact and made the performance/pay linkage irrelevant. Performance pay systems have been researched extensively, with very mixed and sometimes contradictory findings, summarised by Armstrong, Brown and Reilly (2010) who conclude that context is key to their use and effectiveness.

So what about the relationship between reward and employee engagement? A range of evidence indicates that reward policies can affect employee engagement and highlights the importance of pay and financial rewards in generating, or perhaps more strongly damaging it. The broader the definition of total reward adopted, and so the greater the overlap with the concept of employee engagement, then - perhaps not surprisingly - the stronger the relationship between them exists.

### Key studies

- Positive perceptions of pay and benefits were one of the factors that contributed to employee perceptions of involvement, which was the strongest driver of employee engagement in research carried out by IES in the NHS (Miller et al, 2007).
- 'Connecting pay to performance has the greatest effect on discretionary effort compared with a range of other factors' (Corporate Leadership Council, 2004).
- Financial incentives had a greater effect on commitment than a wide range of other motivational and HR levers: training, work design, etc (Guzzo et al, 1985).
- Equal pay structures were found to be related to employee cooperation, involvement, satisfaction and commitment (Bloom and Michael, 2002; Levine, 1991; and Pfeffer and Langton, 1999), all of which have been used as proxies for employee engagement.
- 'Fair pay' was also a key element influencing employee commitment in the Canadian government service-performance chain (Heintzman and Marson 2005).
- WorldatWork's research (2010a) indicated that performance-related pay has a particularly strong impact on the engagement of an organisation's top performers.
- Another American study indicated that the pay premium required to recruit was halved if an employer possessed an attractive total reward package (cited in Armstrong, Brown and Reilly, 2010)).
- Also, in keeping with two factor theories of motivation, getting total reward wrong can negatively impact on performance. For example, CIPD research (Truss et al 2006) listed inadequate aspects of the 'pay package' in the top three factors contributing to work disengagement (cited in Brown and Reilly, 2013).



Recent work testing the concept of high performance work practices, which include rewarding performance, suggests that as an integrated 'bundle' of practices these can influence engagement. Farndale and Murrer (2015) examined the link between job resources (specifically, financial rewards, team climate, and participation in decision-making) and engagement in a cross-national study to reveal if country mediated the relationship between the two. Despite there being differences in the strength of the relationship in each country studied (the Netherlands, Mexico and the USA), the results demonstrate that financial rewards, team climate, and participation in decision-making in combination all had a positive relationship with engagement cross-nationally.

Unsurprisingly, the broader the definition of total reward considered, the stronger the influence on engagement. From a research perspective, this raises problems of definition, measurement and overlap. This also supports other work around high performance work practices which suggest that reward is linked with engagement, but especially when non-financial rewards are included (such as being part of a team and of having the opportunity to contribute ideas) alongside financial rewards for good performance.

In the hospitality industry, Karatepe (2013) examined the impact of rewards on engagement in the context of high performance work practices (HPWP). He identified that employees' perceptions of reward, when combined with the other HPWP's of training and empowerment, were linked to levels of engagement and exerted a positive influence on levels of job performance and customer service; this is the so-called 'service-profit chain' first identified at Sears.

The study found that there was a positive relationship between the presence of reward practices, along with empowerment and training, and employees' engagement, as measured by the nine-item version of the Schaufeli et al (2013a) UWES. The reward practices explored covered those practices that rewarded employees for delivering high quality service to customers. Karatepe (2013) suggests that these reward mechanisms in the workplace 'send powerful signals to employees that their efforts are appreciated, recognised and rewarded in the organisation'

A further study carried out by Koc (2014) within private sector organisations found that perceptions of pay and benefit practices were positively linked to both job satisfaction and organisational commitment. While training and development was linked to organisational commitment alone, suggesting that both pay and benefits and the non-financial benefit of training all have a place in the total reward/engagement picture.

## Total reward and turnover intention

One way in which the impact of total reward on employee engagement might be measured is through employee turnover and intention to seek alternative employment.

Staff retention in areas such as nursing is becoming a key concern once more in the NHS, as UK employment rates reach record levels. The hypothesis could be that as low pay awards start to impact upon living standards or on perceptions of feeling valued by the organisation, organisational engagement is likely to be negatively impacted and the intention to leave is likely to increase. The nursing profession is on the Shortage Occupation list for migration purposes, with the Migration Advisory Committee (2016) noting the current nurse vacancy rates at 9.3 per cent, almost twice the NICE guideline and that median nurses pay is £7,500 below the median pay in other graduate occupations.

WorldatWork (2010a) conducted a study which examined the influence of five total reward elements on individual employee attraction, motivation and retention, using a sample of high demand applicants/employees (accountants). The results showed that satisfaction with work-life balance was the most critical factor linked to employee retention, in contrast to factors that influenced attraction and motivation. These findings suggest that factors important to *attracting* an applicant may not be the same as those fostering motivation and engagement or preventing turnover (WorldatWork, 2010a: p 37).

WorldatWork also conducted a later study (2012) about the retention of talent and the role of rewards. The study found that the reasons for leaving an organisation in order are:

- opportunity to earn more pay elsewhere
- lack of promotional opportunities
- feelings that pay levels are unfair relative to others outside the organisation
- dissatisfaction with job or work responsibilities and feelings that pay levels are unfair relative to employee's performance and contribution.

(Scott, McMullen and Royal, 2012).

Similarly, research in the UK public sector showed that while people generally do not join the public sector primarily for financial rewards, pay appears to have a bigger effect on their intention to leave.

When NHS staff in London were asked for suggestions to improve their working lives, better pay came only fourth on their wish list, behind more staff, better working conditions and facilities. However, those who said they wanted to leave the organisation as soon as possible were likely to have pay higher or their wish list than stayers (but still only second or third) (Pearson et al, 2004).

Schlechter et al (2015) discovered that non-financial reward elements (work-life balance, learning, and career advancement) were significantly linked to employees' perceived attractiveness of a job offering and that gender was found to also have a significant effect, such that the presence of non-financial rewards was more attractive in job offerings for women than for men. Although this research has not yet been replicated, and the sampling was convenience sampling and so certainly needs further testing, when considering total reward packages in the NHS differences in gender perceptions may still be worth considering, given that the preponderance of female employees.



Work in China also suggests that turnover intention is linked to pay satisfaction and in a study by Hu and Schaufeli (2011) it is also shown to be partially mediated by engagement. They tested the idea that remuneration is one of the job resources, along with job insecurity as a job demand, which impacts organisational outcomes via the mediator of work engagement. Based on the JD-R model of engagement, their work suggests that there are links between low remuneration and the outcomes of turnover intention and organisational commitment and this is only partially mediated by engagement. They also found a direct link between remuneration and organisational outcomes, which was equally strong as the mediated link, suggesting that engagement is only a partial mediator of these two organisational outcomes.

The implication is that low remuneration both directly and indirectly affects an individual's intent to leave and level of commitment; and, that whether or not an employee is engaged, if they perceive their remuneration to be low there is likely to be an effect on their intention to go. In terms of total rewards, this would suggest that remuneration plays a central role. However, the authors did not investigate other kinds of benefits alongside pay and the question of whether and how engagement, intent to leave and organisational commitment may be influenced by a broader consideration of financial and non-financial rewards in the context of a total reward approach remains unanswered. Of course, China is a very different culture to the UK.

All of this suggests that while the non-financial aspects of total reward (such as promotion opportunities and the intrinsic nature of work) influence intention to leave as an indicator of organisational engagement, this is also influenced by pay as a hygiene factor, with perceptions of fairness playing a significant role in its impact. There are indications that employee involvement, as a non-tangible benefit, also impacts on intention to leave, as demonstrated in a study by Shuck and Reio (2013). They examined the links between HR practices relating to employee involvement, and employee turnover intention, and their results suggest that both participation and different types of engagement (cognitive, emotional, and behavioural) were negatively related to turnover intention, with engagement partially mediating the relationship between involvement and turnover intention. So, employee engagement, involvement and intention to leave were all related.

### How do the linkages operate?

Robinson et al's (2004) research on **engagement drivers** draws out the evidence that no single set of HR management policies and practices is universally successful in engaging employees.

1. The relationship seems to depend on the total reward offer of the organisation, including non-financial as well as financial components.
2. The importance of the different elements to different employees varies.
3. Experiences at work – the way in which the different elements are enacted day-to-day – make a big impact on engagement levels, suggesting that the role of the line manager is very important.

In addition, different drivers and rewards may apply in initially attracting and engaging employees, from those that sustain engagement and enhance it over time (Brown and Reilly, 2013). It is very much a case of fitting total reward to best suit an organisation's goals and culture, rather than implementing a set of common reward practices, of 'best fit' rather than 'best practice' (Armstrong and Brown, 2006).



WorldatWork's **Total Rewards Model** illustrates these relationships very well. The study found that organisations that encourage managers to engage employees by making it a performance measure, and reward engagement through incentive programmes, more effectively foster high levels of employee engagement and motivation than those organisations that do not (WorldatWork, 2010a). The contributing direction of relationship is not clear in these survey results and the findings are based on reported perceptions rather than outcome measures.

This survey also found that that base pay and benefits had the overall weakest relationship with the organisation's ability to foster high levels of employee engagement and motivation compared to pay incentives, intangible rewards and quality of leadership.

This suggests a higher variability in the link between pay and benefits and engagement than other features, which might be included in a total reward package. The impact of intangible rewards on employee engagement is perceived as very high and measures of the impact of efforts to increase engagement through reward programmes were strongly correlated with organisations' effectiveness in fostering high levels of employee engagement and motivation. This gives some credence to the view that those organisations that can link engagement to total rewards practices are more likely to effectively engage and motivate employees (WorldatWork, 2010a).

When considering the performance impact of total rewards through the mechanism of increased engagement, Aon Hewitt's 2012 Total Rewards Survey revealed that higher-performing companies are more likely to articulate and communicate a total reward strategy and differentiate themselves on non-financial rewards (Brown and Reilly, 2013).

Other studies, such as Brown and West (2005) suggest that the broad total reward context is critical to offering an engaging employee experience that then underpins effective service performance. Attempting to replicate and research the associations between employee and customer attitudes found at Sears in the US, the study involved 15 UK employers in public, private and voluntary sectors and encompassed a deliberately wide range of customer service settings and roles, ranging from retail stores and leisure centres to telebanking and an acute hospital. The study attempted to identify whether those displaying the highest level of customer service were also differentiated by their rewards.

They found that five of these firms excelled against the measures of customer service used in the research, and they were also differentiated in their reward practices. They all employed measures of customer satisfaction in performance-related pay plans, were twice as likely to use PRP, and made greater use of bonuses and recognition.



In a similar fashion to Guest et al (2003), the study found that a variety of other management practices and HR policies, were vital in creating the supportive context for employees to commit to serve the customer, creating a strong sense that the entire organisation 'practices what it preaches' (Brown and West, 2005, p. 30). These are:

- career development
- employee involvement
- performance management
- work-life balance.

Non-financial rewards played a critical part in building the 'totally rewarding environment' in which staff felt valued and rewarded for delivering high levels of customer service.

### **What about the relationships and evidence in the NHS?**

West, Guthrie, Dawson, Borrill and Carter (2006) undertook one of the most famous research studies on the links between HR management practices, employee attitudes and performance.

It makes links between perceptions of HR management practices and mortality rates. They studied HR policies including performance management, training, decentralisation, participatory mechanisms, team-based structures, employment security, staffing and compensation, and their relationship to standardised patient mortality rates across almost 100 acute hospitals. They found a complementary set or bundle of these HR practices correlated with patient mortality rates and concluded that taken together, they can have a significant effect on quality of patient care, with team-working and performance management particularly important in the 'bundle' of practices.

There is a lack of further research on the links between performance and engagement in the NHS. Perhaps this is not surprising given the range of employers, employees and factors affecting staff experiences, and with just 30 items in the core staff survey questionnaire, leaving limited room to investigate perceptions of HR management practices, including pay and reward.



## Key findings from the 2014 NHS staff survey results

- The first ever decline in overall engagement levels. This appears to have been associated with perceptions of increased workload and declining pay satisfaction, which is consistent with the notion that perceptions of the fairness of pay and rewards: effort relationships influence overall levels of employee engagement.
- Growing pressure on those working in the NHS, but also the vast majority of staff remained positive about their work and the service they provide. For example, 67 per cent of staff said patient care was the top priority for their organisation compared to 66 per cent in 2013.
- After three years of progress on engagement, the picture in 2014 was more mixed. The increase in work pressure and other factors may have had an impact on overall staff motivation and satisfaction, which both fell. This had an impact on the overall staff engagement indicator, which fell slightly from 3.71 to 3.70.
- There was a fall in the willingness of staff to recommend the NHS as a place to work. This fell from 3.64 to 3.62. In context, there was an increase in work pressure indicator from 3.06 to 3.09, reflecting demand on the service. General UK employee engagement data shows similar declines in perceptions of the workplace experience and perceived increases in stress and work pressures (Aon Hewitt, 2014).
- On the positive side the percentage of staff reporting that they are happy with the support they get from their line manager rose from 65 to 68 per cent. As a result, the overall key finding indicator on support from line managers rose from 3.66 to 3.68.
- Figures for appraisal levels were broadly stable, with the percentage that reported their appraisal as well structured rising slightly from 37.87 to 38.07 per cent. Overall the levels of staff training increased across most areas.
- The percentage of staff saying that they had suffered work-related stress in the previous 12 months rose from 38.61 to 39.50 per cent. However, the percentage of staff feeling pressure to work when unwell fell from 27 to 25 per cent. Bullying and harassment remained an area of major concern.

### Key findings from the 2015 NHS staff survey results

The 2015 survey results, published in February 2016, showed a recovery in the overall levels of engagement and pay satisfaction, while results had worsened on work pressures, bullying and harassment and concerns over staffing levels.

- Staff engagement rose from 3.71 in 2014 to 3.78, compared with 3.60 when the measure was introduced in 2011. The increase was driven by the improvement in staff motivation from 3.83 to 3.92 and willingness to recommend the NHS from 3.65 to 3.72.
- There was also a notable improvement in the willingness to recommend the organisation as a place to work or receive treatment: 69 per cent said that if a friend or relative needed treatment they would be happy with the standard of care provided by their organisation – up from 65 per cent in 2014.
- On pay, 38 per cent reported that they were satisfied with their level of pay compared to 33 per cent in 2014.
- Only 31 per cent of staff felt that that staffing levels are adequate, with 48 per cent disagreeing with this statement.

This perhaps surprising recovery in the overall level of employee engagement, despite the continuance of the one per cent pay increase cap across the public sector and NHS, possibly indicates the importance of non-pay/financial factors in explaining employee engagement levels.

NHS Employers highlights on its website that there continues to be wide variation in scores and scope for progress on key questions between employers and locations, just as our review of the research has indicated the importance of local tailoring and 'best fit' total reward practices in leveraging the relationship with employee engagement.

### Total reward components and evidence for linkages to engagement

The previous sections indicate that total reward, in conjunction with other HR and employment practices, is associated with employee engagement levels and with other proxy engagement measures, including employee turnover. We now consider the key dimensions of this broad concept that the research suggests play a particularly important part in this relationship:

- fairness and fair pay
- flexible benefits
- reward communication
- recognition practice.



## Fair pay and engagement

As identified by Herzberg et al's original two-factor theory (1959), inadequate and inequitable financial reward can produce de-motivating effects. Since then, a variety of studies have reinforced the powerful motivating effects of intrinsic rewards and the potentially stronger demotivating effects of financial rewards. The negative impact generally seems to be evident more in terms of relative rather than absolute levels of financial remuneration.

Nobel-prize winning behavioural economist Daniel Kahneman has produced a number of studies illustrating that absolute levels of monetary rewards are not associated with personal motivation or happiness beyond a very basic income level. His research suggests that social comparison is a much stronger predictor of pay satisfaction than absolute pay level (Kahneman et al 2006). He has also demonstrated that the impact of financial losses on people's attitudes is twice as strong as the positive impact from financial gains (Kahneman and Tversky 1984).

Diener and Seligman (2004) found similar evidence when considering national income levels, concluding that: 'Since World War II there has been a dramatic divergence between real income (after taxes and inflation) and life satisfaction in the US, and a similar pattern can be seen in the data from other nations, such as Japan. While happiness is not highly correlated with income, it is highly correlated with social relationships'.

Layard (2015), a UK economist, has produced similar evidence of the lack of impact of financial rewards on employees' happiness and engagement beyond a basic income level. Consulting and practitioner models of employee engagement, like the IES NHS-derived model, typically highlight non-financial factors as the strongest determinants of employee engagement. For example, Aon Hewitt's (2014) annual review of its employee engagement database of over four million employees found that career development and recognition were the strongest drivers globally. However, pay had increased in importance in Europe in recent years, possibly related to the continuing climate of austerity and generally low pay awards affecting living standards; and only a third of employees in Europe agreed that their pay was fair.

Work by Anitha (2014) on the determinants of employee engagement and their link to performance identified a number of factors other than extrinsic motivators, which can be considered part of total rewards packages. The linked factors to engagement included working environment, leadership, team and co-worker relationship, training and career development, and financial compensation. Working environment and team and co-worker relationships had the most impact, while co-worker relationships were key to perceptions of fair pay and employment.

Giancola (2014) points out that generally intrinsic motivation receives only intermittent, low-key coverage in the literature and from practitioners, and that surveys on employee engagement levels tend to mention the importance of specific intrinsic factors but lack a full discussion of the area. He suggests that this means that many HR professionals may over-estimate the value of extrinsic rewards to employees and fail to realise how important intrinsic and comparative rewards are.

He also argues that they may not know how satisfied their employees are with what they have in terms of intrinsic rewards and what, if any, actions should be taken to improve the situation. Pfeffer (2006) believes that senior management routinely and similarly over-estimates the importance of financial motivation to the engagement of most people (except themselves), and under-estimates the importance of other factors such as appreciation and recognition.



Thus, even if motivation in the short term increases by extrinsic reward, this is unlikely to lead to increased personal satisfaction and organisational engagement in the absence of other important factors – good management, team-working, fair reward management processes and so on. Indeed, it is possible that changes to the total reward structure intended to increase motivation will decrease organisational engagement if not dealt with very carefully and in a manner perceived to be fair, particularly in terms of pay reforms.

Ensuring evident fairness in the pay system and effective communication about the total rewards offered, which then cannot be dismissed by employees as cynical attempts by the organisation to keep overall pay low.

Pay progression systems, especially those linked to performance, can potentially be used to motivate employees, however if employees lack trust in how the process is conducted, especially its fairness, this can remove the motivational potential of the system (Armstrong, Brown and Reilly, 2010)).

The equity theory of motivation (Adams, 1963) argues that employees look for and expect total reward appropriate to their capabilities and efforts, and judge their rewards relative to those received by other people inside and outside their employer. Given the importance of ‘procedural justice’ (the process by which reward is introduced and managed), to employee motivation and engagement, rather than just paying attention to the level of the award and distributive justice (Leventhal, 1980), reward is a process that has to be carefully managed. How reward is managed and regarded, as well as how valuable rewards are, is therefore relevant to considerations of employee motivation and engagement.

The Compensation Round Table (2006, cited in Reilly and Brown, 2008) has presented evidence that pay fairness (particularly process fairness) is 25 times stronger a predictor of employee commitment than pay satisfaction. Similarly, the perceived ‘fairness’ of the reward is related to its acceptance, as posited originally by Adams (1963). A Towers Watson study (2007/8, also cited in Reilly and Brown, 2008) suggested that employees are generally more concerned with fairness and equity than with absolute levels of pay. Performance-related progression systems, which may be intended to be motivational for staff, may have the opposite effect if the pay budget is very small; this is a problem that many public sector and NHS organisations in particular are facing at present (Armstrong, Brown and Reilly, 2010).

In the case of the public sector, The Public Services Productivity Review Panel (2002) reported that staff rarely mentioned pay as a motivator. Indeed, they more often stressed that they were not ‘in it for the money’. In particular, they may regard performance pay as ‘inconsistent with the idea of public service’ (Marsden and French, 2002).

This is not to say that for public sector employees, pay is less significant as a hygiene factor – it may be just as likely to demotivate NHS employees as commodity traders if perceived as unfair or communicated badly, despite its being less of an active motivator. CIPD (2007b) found in a survey of employee attitudes, which private sector employees were most likely to be dissatisfied with pay because they felt it did not reflect their performance and contribution, while public sector employees placed more emphasis on it not keeping pace with the rate of price inflation.



All of this research, while finding evidence for the associations between reward and engagement levels, demonstrates that there is not a simple relationship between the features of a total reward package and engagement, as people have choices to make in the context of their own personal situation. For example, the low paid may give a higher priority to pay than senior, well paid professionals for whom job satisfaction is higher up the priority list. In surveys of the London NHS conducted by IES, lower paid staff – technical, administrative and support – were more likely to cite pay as an issue than those better paid (Pearson et al, 2004). According to the Public Services Productivity Panel, employee attitudes are significantly affected by wider management issues, which are as important, if not of greater significance, than pay and benefits (Public Services Productivity Review Panel, 2002).

As already noted, academic studies, tend not to have highlighted rewards, particularly financial reward, as heavily affecting employee engagement. However, one factor, which was highlighted by the NIHR review of relevant research (Bailey et al, 2015), was the effort/reward imbalance (e.g. Hyvänen et al, 2010; Spence Laschinger, 2010; Inoue et al, 2013). Equity theory suggests that increasing workload without increasing perceived rewards may result in feelings of unfairness, negatively impacting on employee motivation and engagement; these studies provide evidential support for that hypothesis in international healthcare settings. As noted above, the initial indications are that the interaction of these two factors – increased workload for perceived no, or low, increases in pay - may have helped to explain the overall decline recorded in NHS staff engagement levels in 2014. However, these suggestions are speculative.

## Total reward, flexible benefits and choice

Turning to consider some specific aspects of total reward packages and any link to levels of engagement, employee benefits is an area in which a number of studies have been conducted. As described earlier, a wish to achieve greater understanding and appreciation of the value of their benefits package among employees has been a key driver of the total reward approach, in the NHS and elsewhere.

Total reward is not a one-size-fits-all approach and offers organisations the flexibility to vary the reward mix and tailor it to particular employee groups (Suff and Reilly, 2008). This emphasis on flexibility and fit with personal choice makes the provision of flexible benefits 'an obvious and perhaps, the easiest manifestation of total reward'.

Some studies suggest that employees like a choice in their reward package, although the UK research on this is limited; but when flexible benefits are introduced this plays to the choice agenda. Barber et al (1992) found that, in a financial services company, flexible benefits choices increased employee satisfaction with their rewards, interestingly among those not making choices as well as those who did vary their package to suit their own needs. Research from Barber and Bretz (2000, cited in WorldatWork, 2010a) also showed that job vacancies filled quicker by companies with flexible benefits than those without.

A supporting argument is that workforces are more diverse than ever before, so offering a standard package based on what is attractive to a white, middle aged, middle class, male population might not suit women, younger employees and those from ethnic minorities (Reilly, 2005). There is an argument that there should be greater 'segmentation' of the offer to suit different needs. Many organisations have moved away from a paternalistic management style that decides what is best for employees, to one where they want employees to take greater personal responsibility (Brown, 2014).

Research by SunJung and Yoon (2015) demonstrated that, while pay is weakly associated with engagement levels, benefits have a particularly strong relationship. They examined four dimensions of reward satisfaction - pay level, benefits, pay structure and pay rises - and found that pay satisfaction as measured by the first three dimensions was linked to engagement as measured by Schaufeli et al's (2001) five item measure of engagement. The research found that of these dimensions, benefits was the most important variable in the link between satisfaction and engagement. The authors go on to suggest that this indicates that ensuring satisfaction with benefits through a flexible benefits plan might be a good way to encourage employee engagement.

Some other studies have used quantitative techniques to demonstrate associations between the use of particular employee benefits (e.g. pensions) and positive outcomes, such as improved employee retention and engagement and higher organisational productivity (Baughman et al, 2003; Tsai and Wang, 2005). Again, as in the research on high-performance, work practices, findings appear to suggest that it is the interaction of different aspects of reward and employment practices within the HR bundle that is most important.

Training and development forms a common element of total reward packages and might be seen as a key differentiator of the NHS deal compared to private sector providers. Cao and Hamori (2015) have focused on exploring types of development as a driver of organisational commitment, similar to aspects of employee engagement. They find that developmental assignments, along with support from direct and senior management, have the strongest positive relationship with organisational commitment as compared to other development practices of coaching, mentoring and training.



## Communication about reward

There is long history of research studies that show employee consultation and communications on reward system designs and implementation makes a major difference to their success (Bowey and Thorpe, 1983; Cox, 2005). Yet as Cox argues, employee views generally seem to be neglected by employers in making pay and reward decisions and research studies also confirm the generally poor perceptions of reward communications and resulting low levels of employee understanding of pay and reward processes (Scott et al, 2008; EHRC, 2010). The NHS is far from unique in this.

Wright (2009) for example, found that the majority of HR managers she studied thought that their total reward scheme was badly communicated and most employees surveyed in the research rated scheme communications as average or poor. This is somewhat ironic given that flexible benefits systems nowadays generally incorporate some type of total reward statement facility and, in offering employees choice, assume a higher level of reward knowledge and understanding by employees in order to be able to make the appropriate decisions.

CIPD research in 2007 around **elements of total reward communications in practice** found that HR managers believed total reward communications are dominated by pay and benefits, when the whole rationale is meant to be to reflect other less tangible aspects of the employment deal. (The reference to the 'level of total reward integration' relates to the extent to which the element is included in organisations' total reward communication.)

Work by Mishra et al (2014) with public relations executives indicates that communications are regarded as part and parcel of developing engagement in employees and that communication strategies which build trust with employees and transparency of reward processes are important to organisational culture and engendering engagement. Again, in commercial models of engagement, internal communications generally emerges as a strong determinant of overall levels of engagement (Aon Hewitt, 2014).

XpertHR (2012) found companies with formal communications strategies were four times as likely to rate their reward communications as effective. Yet only 41 per cent of employers had a formal reward communications strategy in their study, and the numbers adopting such an approach were on the decline.

As we have seen, what employers define as total reward varies. While much of the academic literature concentrates on total reward as a very broad concept, the practitioner focus has often been narrower, focusing on communicating the full value of the measurable and quantifiable parts of the deal and the extrinsic pay and benefits. This focus tends to exclude the more intrinsic and intangible elements, and concentrate on the extrinsic and tangible things that make up the remuneration package. This is understandable, because financially related benefits are more straightforward to explain, and employers want to emphasise the full value of the benefits available to employees (especially pensions).

Aon Hewitt's Total Rewards Survey (2012) of over 700 North American employers found that there was a significant correlation between levels of total shareholder return and the communications of a total rewards strategy. 88 per cent of the participants regarded aligning total rewards with business strategy as a critical priority. Yet only 25 per cent had a declared total rewards strategy, only 29 per cent had data on the reward preferences of employee groups and just ten per cent thought they used total rewards in practice as an effective labour market differentiator.

In the UK, 39 per cent of the 430 predominantly large private sector firms surveyed in one recent study operated flexible benefits packages and 34 per cent issued total rewards statements (Aon Hewitt, 2014), proportions which have been stable in recent years. IES's review of relevant literature similarly concluded that researchers and practitioners were still adopting a pay- and employer-focused, rather than total reward- and employee-focused, approach to reward management, helping to sustain ineffective approaches to total reward communications (Cox, Brown and Reilly, 2010).

### Total reward statements



Understanding of total reward, according to research done for WorldatWork (2010b), tends to lead to greater satisfaction with pay, which in turn leads to greater employee engagement. Inadequate understanding, on the other hand, may also result in employee dissatisfaction. When employees have a solid understanding of what their employer is offering, this can improve engagement and commitment levels and therefore this offers a strong argument for transparency.

Total reward statements (TRS) like the one introduced by the NHS, offer such transparency and a way to communicate to employees the total value of their rewards and benefits package. The most comprehensive TRS include non-cost benefits, particularly those unique to the employer, as well as financial information (Employee Benefits, 2012). Personalising TRS content can also help encourage engagement and increase employee appreciation of their full package (Aon Hewitt, 2015). Some 36 per cent of employers in the UK provide TRS to their employees, according to the Aon Hewitt Benefits and Trends Survey (2015), and among the top reasons given by participants for communicating total reward was employee engagement (39 per cent).



## Recognition and appreciation practice

UK surveys suggest that there is a growing interest in employee recognition programmes and that these are rated highly in terms of impact and cost-effectiveness, as well as emerging as a significant and often unmet employee need and driver of engagement levels (CIPD, 2013; MacLeod and Clarke, 2009). NHS Employers has already produced useful general **guidance and case study** material in this area. Pfeffer (1998) states that:

*‘Creating a fun, challenging, empowered work environment in which individuals do meaningful work for which they are shown recognition and appreciation is a more certain way to enhance motivation and performance, even though it may be more difficult and take more time than simply turning the pay lever.’*

Employee recognition and appreciation, if non-financial, places emphasis on intrinsic as opposed to extrinsic motivation, and is useful for rewarding staff at little or no cost. For public sector organisations under cost controls, such as the NHS, this can be useful, especially as in the public sector, as we have seen there is strong evidence that intrinsic motivational factors are critical to effective recruitment and retention (Reilly, 2005).

Rose (1998) has defined non-financial recognition as providing ‘a non cash award in recognition of a high level of performance or achievement such as customer care or support to colleagues, which is not dependent on the achievement of a pre-determined target’. While increasingly these awards may have a monetary value, he notes that these are designed to appeal to people’s intrinsic motivations, ‘feeling valued and involved, giving a sense of job satisfaction and encouraging cooperative behaviour’.

Work recognition has also been linked to higher employee morale (Robinson et al, 1993, cited in WorldatWork, 2010b) and higher levels of job satisfaction (Saunderson, 2004, cited in WorldatWork, 2010b). Jensen et al (2006, cited in Suff and Reilly, 2008) state that it is intangible rewards, such as recognition of good performance among others, rather than tangible, monetary rewards that have an enormous influence on engagement levels.

As such, large employers have used recognition arrangements for many years. However, their prevalence has increased over the past decade and they have been expanding from their traditional strongholds in customer-facing roles into new sectors and occupations.

The CIPD annual reward management survey (2015a) found that 31 per cent of the 525 employers studied made use of non-financial recognition plans, with the highest prevalence among not-for-profit firms at 39 per cent. The survey summarised the overall direction of change in these schemes as ‘a move from focusing on separate and ad hoc employee of the month type schemes to a more strategic total rewards and recognition approach, in search of improved management and employee engagement as the route to higher business performance’.

**In research conducted by WorldatWork, (2002) it was reported that the objectives for non-financial recognition plans were as follows:**

- creating a positive work environment, 84 per cent
- reinforcing desired behaviours and values, 76 per cent
- motivating high performance, 73 per cent
- improving morale, 69 per cent
- supporting employee retention, 51 per cent
- encouraging culture change, 23 per cent.

But what is the evidence that these objectives are being delivered? An earlier CIPD survey (2009) found that respondents rated recognition plans as their most cost-effective reward vehicle. However, in terms of their overall effectiveness, there was a bimodal distribution of results, with more companies rating them as both more effective and less effective than other forms of reward, illustrating the potential risks as well as the benefits from these schemes. A McKinsey study (cited in Globoforce, 2009) found 'spot' non-cash awards to produce ten times a greater return on investment than base pay increases, and a 2004 University of Chicago study found that non cash recognition was 24 per cent more powerful in reinforcing performance than cash bonuses (Globoforce, 2009).

Research by Hulkko-Nyman et al (2012) explored the links between employees' perceptions of their total rewards, especially non-monetary rewards, and their experienced work engagement in elder care settings in Finland and Italy. Their results indicate that non-monetary rewards, especially a feeling that one's work is appreciated and recognised, are connected to all aspects of work engagement using Schaufeli's vigour, dedication and absorption model. They used a five-factor model for total rewards perceptions comprising pay, benefits, feedback and influence, stability of employment and appreciation of work and the results show that all of the total rewards elements, except for job stability, correlate with levels of engagement (specifically dedication and vigour). Non-monetary reward perceptions, particularly recognition, were more strongly correlated with work engagement than material or monetary rewards and, of these appreciated work was the most highly correlated to engagement.

The authors conclude:

*'The total rewards approach appears to be a practical tool for answering elder-care organizations' challenges in employee retention and attraction. Special attention should be given to enhancing the nonmonetary rewards, especially boosting the feeling of appreciation and creating challenging jobs.'*

Although the study did not involve a UK sample, with the work being undertaken in healthcare settings, it has some relevance to total reward in the NHS.



## Key studies of recognition practices

- 'The number-one reason most Americans leave their jobs is that they don't feel appreciated. In fact, 65 per cent of people surveyed said they got no recognition for good work last year' (Rath and Clifton, 2004).
- Only 14 per cent of organisations provide managers with the necessary tools for rewards and recognition. (Aberdeen Group, 2013).
- 'Organisations with recognition programs which are highly effective at enabling employee engagement had 31 per cent lower voluntary turnover than organizations with ineffective recognition programs.' ( Sherman Garr, 2012).
- 41 per cent of companies that use peer-to-peer recognition have seen marked positive increases in customer satisfaction. (SHRM/Globoforce, 2012).
- Companies with strategic recognition policies reported a mean employee turnover rate that is 23.4 per cent lower than retention at companies without any recognition programme. (SHRM/Globoforce, 2012).
- In environments, where recognition is perceived to be part of the culture, strong management action in recognising employee performance increases engagement by almost 60 per cent. (Towers Watson, 2009).
- Organisations with strategic recognition programmes in place exhibit 28.6 per cent lower employee frustration levels than companies without recognition programmes. (SHRM/Globoforce, 2012).
- Organisations with the most sophisticated recognition practices are 12 times more likely to have strong business outcomes. (Sherman Garr, 2012).
- Peer-to-peer recognition is 35.7 per cent more likely to have a positive impact on financial results than manager-only recognition. (SHRM/Globoforce, 2012).
- Praise and commendation from managers was rated the top motivator for performance, beating other non-cash and financial incentives, by a majority of workers (67 per cent) (Dewhurst, Guthridge and Mohr, 2009).
- Recognition for work was one of the top five drivers of (candidate) attraction in the UK, and was tied as the top attraction in the EU. (Towers Perrin, 2004).
- When companies spend 1 per cent or more of payroll on recognition, 85 per cent see a positive impact on engagement. (SHRM/Globoforce, 2012).
- 'In those organisations in which individual employees or teams are recognized, the entity's average core for employee results was approximately 14 per cent higher than in organisations in which recognition does not occur.' (Sherman Garr, 2012).
- When asked what leaders could do more of to improve engagement, 58 per cent of respondents replied 'Give recognition.' (Psychometrics, 2010).

## Section summary

Our review of the mostly practitioner literature available indicates the complexity of any relationships between total reward practices, employee engagement and performance outcomes. They appear to be multi-directional, influenced by a range of other variable and highly study/situation-specific. There remains a 'black box' (Guest, 2011) from existing research in terms of just how reward and HR practices can, if at all, be best employed to deliver improved employee engagement and organisation performance. The potential impact of greater local flexibility in pay and conditions and for improved reward communications and appreciation from Total Reward Statements in the NHS and elsewhere may well not be being realised in practice at the moment.

## Conclusions drawn from the review

1. High employee engagement levels can deliver positive organisational benefits.
2. Appropriate reward practices and processes, both financial and non financial and managed in combination, can help to build and improve employee engagement, and badly designed or executed financial rewards can hinder it.
3. The broader the definition of total reward that is adopted, including a wide range of extrinsic and intrinsic, financial and non-financial rewards, then the broader the potential impact on employee engagement appears to be. This does though raise the definitional issue as to how far total reward and employee engagement are overlapping concepts.
4. In a context where employees feel totally rewarded for their contribution and valued by managers, then higher levels of employee engagement and higher levels of performance are more likely to occur, particularly in customer service and care settings.
5. Reward is also one of the bundle of HR practices that is also associated directly with higher organisational performance.
6. Besides using remuneration to attract and retain, this review would suggest that organisations can design approaches to reward that are likely to promote employee engagement and thereby to support and further improved organisational performance.
7. These relationships are not universal, however, but rather appear to be situation-specific. Rather than copying a set of HR and reward practices, which other employers have found to be associated with high employee engagement, our findings, suggest that each employer needs to research the drivers and determinants of their own employees' engagement levels and explore how total reward can and could influence theirs. The NHS Staff Survey provides a tool to begin to do this.



## 4. CONCLUSIONS AND IMPLICATIONS

### In the final section we

- draw appropriate conclusions from the findings summarised in Section 3
- draw out the implications for employers
- highlight the implications for future research.

Edward Cadbury, the Quaker founder of the famous confectionary firm, explained his generous employee benefits by explaining that his firm's performance and employees' welfare were different sides of the same coin. Total reward, our evidence review would suggest, can be a potentially useful concept to help employers square the difficult circle of increasing employee engagement when financial budgets are tight.

### Conclusions

The evidence we have gathered makes clear that there is no total reward 'silver bullet' that if fired, employees will be automatically engaged, extrinsically and intrinsically motivated and performance benefits will flow NHS-wide (Brown and Reilly, 2013).

Employee engagement and its links to reward need defining and understanding in each organisational setting, rather than assuming that simplistic universal models can be adopted. There is no 'best practice' approach that will always lead to positive results – a one-size fits all-total reward approach is misconceived. Reward policies, as part of a wider HR strategy and in conjunction with other HR practices, our review of research would suggest can positively influence engagement levels and influence both intrinsic and extrinsic dimensions of motivation and organisation and individually focused dimensions of engagement.

However, the reward-engagement relationship is not risk-free; it is complex, situation-specific and generally involves multiple factors and drivers, financial and non-financial (Brown and Reilly, 2013). This complexity highlights the importance of a total reward approach in engaging the diversity of the workforce and meeting the wide variety of employee needs, and explains why NHS Employers has carried out work on this topic (ibid.).

### Implications for employers

Employers in the NHS need to carry out investigations to identify firstly what drives employee engagement among different employee groups in their organisation, and secondly what part, if any, reward does or could play in driving engagement (Reilly and Brown, 2008).

By paying greater attention to how total reward might be designed to fit the needs and character of employees, we believe that this research supports our interpretation that total reward provides some potential to build both higher levels of extrinsic and intrinsic motivation and higher levels of employee engagement.

The key to obtaining the potential benefits and avoiding the pitfalls of total reward, as NHS Employers' work makes clear, appears to lie in:

## THE RELATIONSHIP BETWEEN TOTAL REWARD AND EMPLOYEE ENGAGEMENT

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- **Knowing your organisations values and what you mean by total reward:** are you trying to improve communications, differentiate yourself in the recruitment market, or appeal to different types of staff or drive up overall performance? Each would imply a different reward approach.
  - **Knowing your people and engaging and involving them:** the NHS Staff Survey provides a good starter, though employers may need to do further investigation of views on engagement and total reward to identify the key groupings and needs in your workforce, given that there are relatively few questions about reward.
  - **Being evidence-based but innovative:** reward, more than other areas of HR, is beset by fads and fashions, of which flexible benefits has merely been one of the latest. Employers in the NHS need to beware of just copying others, or adopting private sector approaches that might not be suitable. There are considerable risks, as well as opportunities, in a total reward approach. Employers should test whatever reward changes they are planning – for example, via established consultation routes, or focus groups/a representative employee panel - to increase the chances of success and measure and monitor their impact over time.



**Based on our previous research, IES has proposed a five-step model that employers can consider using for developing an effective total reward strategy (Reilly and Brown, 2008).**

**Step 1:** Begin with a deep examination of the present strategy, organisation and culture and discover how the organisational leadership would want it to be in the organisation. This should be followed by developing an understanding of what brings people to work, keeps them with the organisation and motivates them to perform while there. A picture can then be established on the drivers of engagement (and disengagement), and how that might vary by grade, gender, ethnicity, age and length of service. This discovery process may mean using a properly researched survey where one can be certain that the answers to a defined set of questions will reveal levels of employee engagement, and then analysing the results systematically, using appropriate statistical tools. The NHS Staff Survey is obviously an excellent starting point of information, but you may want to delve deeper into reward perceptions. One UK employer, for example, followed up its annual engagement survey with a pulse survey of ten per cent of employees covering 22 items on perceptions of reward. The results were analysed and compared with UK norms, and used to support changes and improvements to reward practices and communications.

**Step 2:** Having constructed an engagement model, look at the number of different 'deals' that apply in the organisation and what the significant components might be (see Reilly and Brown, 2008, for more detail).

**Step 3:** Design and amend reward programmes to leverage these different aspects of engagement for the various staff groupings. Thinking in this way leads toward the implementation of a 'real' total reward approach. Rather than adopting it as an empty fad or simply copying other companies, total reward has the potential, if implemented thoughtfully, to bring together all the reward elements (pay and non-pay) that engage staff in your setting. In most organisations, total reward approaches are segmented to take account of key employee differences.

**Step 4:** When implementing new or amended reward arrangements designed to improve employee engagement, consider how their effect and success might be monitored and measured. Online survey tools give a quick and relatively inexpensive means of monitoring and adjusting things to influence employee engagement levels. However, as earlier steps pointed out, HR and reward practitioners must know why they are asking the questions: how do they relate to the reward strategy? It is also important to analyse the results by employment group/personal characteristics. More in depth understanding can be gathered from focus groups.

**Step 5:** Given that bundles of HR practice are likely to deliver the best results, a holistic, broad approach to total reward and people management is required, integrating HR practices in a purposeful way. This means executing total rewards so that it connects to the organisational brand and how employees are attracted to the organisation. It means looking at the link between pay and performance management, not in a mechanistic way but in a form that lifts employee performance. It also means not neglecting other people management practices, such as work organisation, the degree of autonomy, and management style, that influence employee productivity and form the wider context for reward.

### Implications for research

This review has highlighted the need for, and benefits of, further research to build understanding of total reward and engagement and their relationship. Areas highlighted by this review that need more research in the NHS and wider, are:

- More multi-stakeholder and multi-disciplinary studies comparing the views of employees and managers on financial and non-financial rewards, their influence on employee behaviour and the barriers to managers in creating totally rewarding work environments, rather than just gathering employer and HR staff views on pay policies and practices. Torre and Sarti (2014) note that rather than the adoption of a 'top-down model' there is a need for more employee-centred 'bottom up analyses' to find sound evidence as to what people really expect from their work. Gerhart and Rynes (2003) blame the dominance of economic theory rather than models from psychology in the field for this situation, while Werner and Ward (2004) note the paucity of research on how organisational culture affects reward systems.
- More in-depth surveys of employee attitudes to total reward, supported by focus group discussions to help to understand why they feel as they do. Questions could be incorporated as additional modules in the NHS Staff Survey, or briefer 'pulse' follow-up studies with samples of staff. It would be valuable in each employer and across the whole NHS to know what employees think of particular benefits such as their pension, how fair they perceive their total reward to be and how well communicated and recognised they feel.
- More time-series case studies (within individual organisations) following the progress of specific total reward strategies and changes would be highly beneficial in determining how best to tailor total reward to a given situation. Guest (2011) believes that despite two decades of research, we are still unable to answer core questions about the relationship between reward systems and performance due to the limited amount of longitudinal research focusing on HR implementation.
- Such case studies would also help in addressing the need to assess the effectiveness of total reward strategies, and changes to these, still a relatively under-researched area (Armstrong, Brown and Reilly, 2010 and 2011). Employers need to set out much more clearly the criteria for success and assess this. When the NAO (2009) assessed the Agenda for Change, it concluded that there was insufficient data to make the assessment and that the original goals had not been specified clearly enough to make subsequent judgement possible.
- Research would also be beneficial into the nature and forms of reward communications, which employees perceive to be most effective, and how these perceptions vary according to type of employer and employee demographics. Existing studies focus on reward communications techniques and vehicles, the 'whats', and are less helpful on some of the 'why' questions, such as why employees prefer one communications vehicle to another.



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## IES

IES is an independent, apolitical, international centre of research and consultancy in HR issues. It works closely with employers in all sectors, government departments, agencies, professional bodies and associations. IES is a focus of knowledge and practical experience in employment and training policy, the operation of labour markets, and HR planning and development. IES is a not-for-profit organisation.

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## NHS Employers

The NHS Employers organisation is the voice of employers in the NHS, supporting them to put patients first. Our vision is to be the authoritative voice of workforce leaders, experts in HR, negotiating fairly to get the best deal for patients.

We help employers make sense of current and emerging healthcare issues to ensure that their voice is front and centre of health policy and practice. We keep them up to date with the latest workforce thinking and expert opinion, providing practical advice and information, and generating opportunities to network and share knowledge and best practice.

We work with employers in the NHS to reflect their views and act on their behalf in four priority areas:

- pay and negotiations
- recruitment and planning the workforce
- healthy and productive workplaces
- employment policy and practice.

The NHS Employers organisation is part of the NHS Confederation.

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For more information on how to get involved in our work,  
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