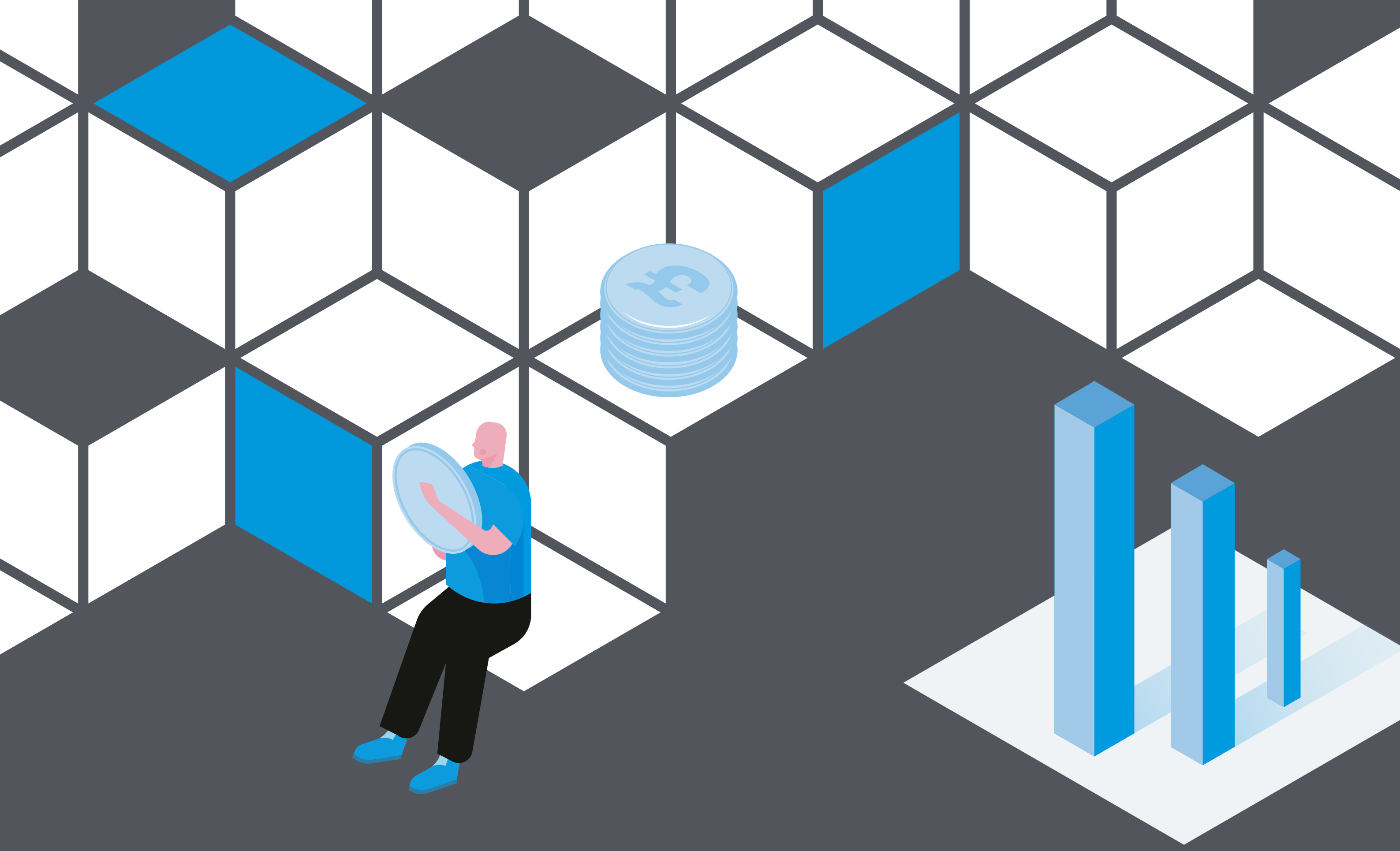

Structure of pay - an evidence-based framework

Literature review, September 2021

THE BEHAVIOURAL INSIGHTS TEAM

1. Introduction

The most common way to attract, retain and reward people - particularly in the private sector - is to use financial incentives including salaries, bonuses, leave or pension contributions. Financial incentives can be powerful, but they are difficult to design well and can produce a myriad of unintended consequences.[1 2] On their own though, financial incentives rarely lead to increased effort and performance. The best way to retain and motivate employees is likely to be through a combination of conventional financial incentives and non-financial incentives, such as letting staff know that they are appreciated or offering more flexible working.[3]

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

BDO UK LLP commissioned The Behavioural Insights Team (BIT) to conduct an evidence review of the literature related to the structure and design of pay and reward, as well as non-financial rewards. For the purpose of this review, pay and reward was broken down into: base salary, bonuses and dividends, paid annual leave allowance and pension contributions. Non-monetary benefits included: company ownership, recognition, flexible working, unpaid leave, private health insurance and Environmental, Social and Governance (ESG) rewards. A detailed examination of how these impact all job outcomes sits outside of the scope of this review, but we narrowed the scope to focus specifically on the following subset of outcomes: job satisfaction, retention, equality and diversity, and wellbeing. This review considered evidence from different employment contexts, and different countries, and includes employees at all levels of seniority.

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

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

Changes as a result of COVID-19

COVID-19, and subsequent social distancing measures, introduced significant changes to ways of working, many of which are likely to have a long-lasting effect. For instance, many organisations transitioned to full remote working in late March 2020 - and 18 months on, rates of homeworking remain higher than prior to the pandemic. Recent ONS analysis of business and individual attitudes towards the future of homeworking show that 24% of businesses intend to use increased homeworking going forwards, while 85% of adults currently homeworking want to use a 'hybrid' approach in the future.[4] These changes may impact future decisions by employers on their pay and reward frameworks. In particular, post-COVID employment shifts raise questions such as whether and how employers should adjust pay for permanent remote workers, or staff working internationally; how employers can make hybrid working effective; and how employers can ensure there are no adverse impacts for different groups. Much research has been undertaken since the pandemic to examine trends and preferences regarding work location and hours, but given the rapid and somewhat unpredictable nature of change as a result of COVID-19, it may be too early to provide clear recommendations for employers on effective approaches to pay and reward going forward.

1.2 Outline of literature review


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1.3 Definitions

	Term	Definition
Monetary benefits	**Salary**	Salary refers to the base pay an employee earns before benefits, bonuses, or compensation is added. Base salaries are set at either an hourly rate or as weekly, monthly, or annual income.
	Bonus	By bonus we mean a financial incentive that is paid beyond what the employee earns as base salary - also known as performance-based pay.[5] Bonuses usually take one of two forms: bonuses are offered to individuals based on assessments of their performance, or bonuses are offered as organisation-wide incentives, such as profit-related pay or share ownership.
	Paid annual leave allowance	Paid annual leave is the statutory holiday allowance of at least 28 days afforded to all UK full-time employees; many employers offer more paid vacation time. The purpose of entitlement to paid annual leave is to enable employees to rest and enjoy a period of relaxation and leisure.
	Pension contributions	By a pension contribution, we mean the amount employees save for retirement. Employers contribute, on average, 4.5% of pay, jumping up to ~9.5% in finance and insurance industries.
Non-monetary benefits	**Company ownership**	By company ownership we mean an ownership structure where a company is partly or wholly owned by its employees. It is common in a range of sectors including manufacturing, engineering, law and consultancy. Employee ownership can be achieved through direct shareholdings or an employee-owned trust.
	Company culture and recognition	Company culture is defined as a set of shared assumptions, values and beliefs that guide how people should behave and interact, how decisions should be made and how work-related activities should be carried out. Employee recognition is the activity organisations engage in to acknowledge exceptional performance and encourage specific values or behaviours.[6]
	Flexible working	By flexible working we mean all types of flexibility – including the number of hours worked (e.g. part-time), the ways in which they are worked (e.g. flexitime; compressed hours), the location of the work (e.g. working from home, working remotely) and other arrangements (e.g. job sharing).
	Environmental, Social and Governance (ESG)	Environmental, Social and Governance (ESG) incentives have positive or neutral impacts on the environment. One example of an ESG incentive is 'green pensions', by which we mean a pension fund which is invested in businesses whose practices are sustainable and environmentally-friendly and/or which work in sectors with low carbon emissions.[7]

Outcomes	**Job satisfaction**	Job satisfaction refers to an employee's overall level of satisfaction or happiness with their job.[8] Job satisfaction can be measured along several dimensions, such as satisfaction with working hours and conditions, as well as satisfaction with pay and benefits.
	Job retention	Job retention refers to an organisation's ability to keep the employees it has already hired. The opposite of retention - turnover - is another way to understand and analyse retention.[9]
	Wellbeing	Wellbeing is more than an avoidance of becoming physically sick. It represents a broader bio-psychosocial construct that includes physical, mental and social health. Well employees are physically and mentally able, willing to contribute in the workplace and likely to be more engaged at work.[10]
	Equality, Diversity and Inclusion (EDI)	Equality refers to creating fair and equal opportunities where everyone can participate and has the same opportunity to fulfil their potential. Diversity refers to recognising the full range of differences between people, across characteristics such as age, disability, race and sexual orientation. Inclusion refers to an individual's experience within the workplace and the extent to which they feel valued and included.

2. Employer Decision Framework on Pay and Reward

The Table below provides the key findings on the effectiveness of different reward types on outcomes such as employee job satisfaction, retention, wellbeing and diversity and inclusion, alongside key recommendations for employers.

The table separates out monetary rewards (salary; bonuses; paid annual leave; pension contributions), and non-monetary rewards (company ownership; flexible working; company culture and recognition; ESG rewards).

Monetary Rewards		
Reward type	**Key findings**	**Key recommendations**
Salary	**Transparency about fair processes supports job satisfaction and equality** Employees are more satisfied with their job and pay if they feel that their peers' earnings are similar to their own, and that both their salary and the process by which this salary is determined are fair. Lack of pay transparency can also drive gender pay gaps.	**Ensure clear, transparent and honest communication with employees on salary** • Focus on the process by which salary is determined, including how the salary relates to performance or responsibility, and what it takes to get to the next pay grade. • Benchmarking information can also be shared: paying the going rate in a particular labour market could offer reassurance that the salary on offer is fair. • Pay transparency is a way to reduce an organisation's gender pay gap. Being clear about what pay is available, and whether negotiation is acceptable, can also lead to fairer salaries for women.
	Individual differences and motivations determine the relationship between job satisfaction and salary Different types of employees may place different amounts of value on monetary rewards. For example, for employees who are extrinsically motivated, higher pay increases job satisfaction. Younger employees may also place higher value on pay than older employees.	**Explore and understand individual differences in people's values and motivations to determine the most effective approach for incentivising staff** • Consider conducting a survey on motivations and reward preferences to better understand what its employees really value, for example whether employees are more motivated by intrinsic rewards like the desire to learn something new or by extrinsic rewards like financial incentives. • Consider offering a combination of monetary and non-monetary rewards (e.g. more training opportunities, recognition, paid leave) rather than cash alone, and offering choice as to which incentive the employee can select. • Pay schemes should always be fair and transparent and in compliance with legal regulations in relation to age discrimination (such as the Equality Act) - with the total value of the package remaining equal for equal roles.

	For staff retention and wellbeing, it's not only about pay Pay is an important, but not the most important factor in employee wellbeing and retention; factors such as stress at work, relationships with managers and work-life balance are equally, if not, more important.	**Collect good data on the factors that most affect employee retention and ensure HR have an evidence-based understanding** • A survey among current employees could be used to explore the factors that affect employee retention and to identify high-risk groups of employees and trends over time. • This data should provide direct indications as to how to improve staff retention and be fed into HR practices and policies regarding the retention of employees. • Well-structured exit-interviews can be used to explore factors affecting employee retention, although post-rationalisation can affect responses and therefore they should be treated with a degree of caution. **Consider the structure of pay scales and other factors such as stress at work and work-life balance to address employee wellbeing** • Carefully considering the structure of pay scales, so there is less difference between the lowest and highest salaries within a pay band, is likely to improve employee wellbeing. • Addressing factors such as stress at work and work-life balance are more likely to improve employee wellbeing than absolute pay.
Bonuses	**Bonuses are more effective at increasing job satisfaction in some groups** Bonuses may increase employee satisfaction, particularly for men and those in higher paying occupations who may have higher monetary motivation. Bonuses are most effective when at least 25% of an individual's salary.	**Be mindful of factors - such as employee's gender or bonus size - which may affect whether bonuses improve performance and job satisfaction** • For example, the higher the size of the bonus payment, the more likely it is that it will lead to higher job satisfaction. • Providing employees with the information and flexibility to tailor their benefits packages based on their individual requirements, is likely to improve retention. • However, be wary of 'choice overload' - as behavioural evidence indicates that having too many choices can make decisions more difficult and can lead to suboptimal choices.
	Rewarding group-based performance may be more impactful for wellbeing Group-based performance and prosocial bonuses may have a larger impact on wellbeing than individual-performance based bonuses	**Consider implementing prosocial bonuses to improve employee wellbeing** • Prosocial bonuses include donations towards charities or sharing rewards with colleagues, e.g., team social activities. • It is important to give employees the choice of how or if they participate in such activities (e.g., providing a range of charities, allowing them to opt-out of activities with colleagues) so as not to counteract the positive effects of prosocial activities.

	Bonus schemes need to be fair to support retention The more employees in an organisation that are awarded a bonus, the more likely this is to have a positive effect on employee retention.	**Consider making bonuses available to all employees to facilitate retention** • Track what proportion of staff receive a bonus. If it is only available to a small number of employees this may have a negative impact on employee retention.
Paid annual leave	**Paid leave helps employers to attract and retain employees** This is especially true for women and others in minority groups.	**Ensure that paid leave entitlements are present on job-adverts to attract diverse talent** • Employees highly value paid annual leave when looking for work - and so this should be highlighted on job adverts. • Expanded parental leave offers should also be made clear externally (on job adverts) and internally to attract and retain diverse talent.
	More leave is not always better when it comes to job satisfaction Offering more annual leave may not increase job satisfaction, and unlimited leave can backfire in that it reduces the mourn of annual leave employees take	**Managers should make sure everyone is clear about their company's annual leave policy,** thus reducing confusion over how many days off employees can and cannot take. **Managers should encourage their team to take time off, such as by** • offering flexibility, and; • modelling behaviours themselves by taking advantage of their own time off.
Pension contributions	**Pensions may be more important for attraction than satisfaction** Employer pension contributions are a benefit that is greatly valued by employees, but may be more important for attraction than for ongoing job satisfaction.	**Emphasise pension contributions in job postings, especially if they are generous** • Such emphasis and transparency will attract applicants of all ages. **Provide clear information to employees embarking on, or returning from, parental leave, as well as any staff changing from full to part-time working hours** • This information can also encourage staff to discuss and reflect on their pension choices as a couple, fully informed about workplace contributions given changing circumstances.
	Default contributions will not be enough for many employees More than 90% of eligible UK workers stick with the default pension scheme they are automatically enrolled in. However, most employed workers need to save more than the default contributions to save for retirement.	**Encourage employees to increase their pension contributions when their financial circumstances change - for instance, defaulting payments from completed student loan repayments or childcare vouchers that are no longer needed to pension payments** • Employers could pinpoint times when employees will have more disposable income, including any bonuses or pay rises, and encourage investment in a pension.

	There is a gender pension gap This is driven by a range of factors, with divergences in pension participation rates between men and women broadly mirroring the gender pay gap which suggests that women may change their saving behaviour around the time they become mothers.	**Encourage employees to consider whether their default pension contributions are right for them** We tend to align with default options, but universal defaults may not be right for everyone - particularly for those who cannot afford to save right now, or those who may need to save more for a comfortable retirement.

Non-monetary rewards		
Reward type	**Key considerations**	**Key recommendations**
Company ownership	**Company ownership positively impacts job satisfaction and retention** Employees who have an ownership stake or the right to participate in the decision-making in the company they work for are more committed to the business, more satisfied with their jobs, and less likely to leave. This is particularly true when ownership is combined with high-performance policies and fixed pay at or above market levels.	**Consider whether an employee-owned structure is right for the business** Even if employee ownership is not right, organisations could consider implementing just three basic actions to increase employee involvement: i) encourage management to share financial information with all employees, ii) give all employees right to participate in the decision-making, and iii) treat everyone the same (e.g., by calling all employees 'partners', for example). Employee-owned businesses can further generate positive outcomes by investing in high-performance work policies, and offering fixed wages at or above market level These policies, combined with employee ownership, lead to greater positive effects for retention, loyalty, and staff effort.
Flexible working	**Flexible working is desired by employees and jobseekers, but it is rarely offered by employers on job postings** 87% of UK full-time employees either work flexibly already or wish they could. 93% of jobseekers want to find a job that allows them to work part-time or flexibly in some way.	**Employers could increase the number of female applicants by advertising all roles with flexible working options** • Flexible working appeals to both men and women, and is a proven way to attract more senior female applicants. • Men may be encouraged to work flexibly through senior role models. **Employers should be aware of issues related to flexible working** • Employers need to monitor for the emergence of differences between different groups to analyse how taking-up flexible working impacts on recruitment, hiring and progression of staff within the organisation. If gaps do emerge, employers need to explore the causes of such differences.

	However, the proportion of jobs advertised with flexible working options remains low - at 22%. Offering flexible work has the opportunity to support gender equality but outcomes for different groups needs to be monitored.	
	Flexible working is associated with higher job satisfaction, employee retention and wellbeing	**Managers should discuss flexible working options with both new and current employees** • These discussions should outline the types of flexible working options that the company can offer (in terms of working hours, location of work, etc.). • Communicate that employees can choose the flexible working arrangements that will best work for them. This is important because needs related to flexible working vary considerably from person to person.
Recognition	**Recognition is crucial for satisfaction and retention** Recognition of good work and expressions of gratitude, such as sending positive feedback around the office, can make a real difference to employees' sense of job satisfaction and retention.	**Consider building moments of thanks into workplace routines** • These can take the form of gratitude slots in meetings, sending positive feedback around the office, or even gifting employees with small financial rewards to be spent on others in their team. • Recognition is most effective when it is public, from people whose feedback matters and is communicated at timely moments (e.g., monthly performance meetings). **Consider investments into client satisfaction and the communication of client feedback as a means to enhance employee retention** • Client satisfaction is positively linked to employee retention and therefore investments into client satisfaction are likely to improve employee retention. • Positive client feedback has a significant impact on employee retention and therefore should be freely and plentifully distributed to professional services employees, and negative feedback should be communicated carefully.
Company Culture	**Company culture is a pivotal factor in retaining employees**	**Consider investing into a variety of factors to improve company culture which in turn will retain and attract employees** Factors including culture and values; career opportunities; quality of senior management; work-life balance; and compensation and benefits all contribute to overall company culture which has been shown to be a key factor in attracting and retaining employees.

ESG rewards	**Reducing environmental impact may support retention of Generation Z employees** Whilst ESG issues are becoming increasingly scrutinised by stakeholders, there is limited research on the impact of ESG rewards on employees. However, younger employees may be more likely to apply to and continue working for companies that focus on reducing their carbon footprints.	**Utilise ESG rewards to retain and attract younger (Generation Z) employees** • Highlight what your company is going to support climate change in both external (to attract) and internal (to retain) communications.
	There is a widespread perception that greener funds don't perform as well financially as other funds	**Clearly communicate the financial performance of green funds** to mitigate concerns that green funds perform less well financially than other funds.
	Overall, there is widespread support for ESG incentive schemes, however factors such as performance criteria relevant to the company and accurate measurement against performance criteria need to be carefully considered.	**Move forwards with ESG incentive schemes but do so with caution and carefully consider factors such as:** • ensuring performance criteria are relevant to the company; • ensuring sufficient research for accurate measurement against performance criteria.

3. Monetary benefits

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

3.1 Salary

Context: The median annual household income in the UK, according to the most recent Office for National Statistics Household Finances Survey, is £29,000 for full time employees[11]. However, this number varies across sectors and genders, with employees in the private sector receiving 7.9 percent more than their public sector counterparts[12], and men being paid 18 percent more than women.[13]

Summary of key findings:

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

3.1.1 Job satisfaction

Despite what is commonly assumed, salary is not the most important determinant of job satisfaction.[14] The results from a survey of Britain and 36 other countries across all geographic regions found that employees ranked salary third in terms of importance for job satisfaction, behind interpersonal relationships at work and having an interesting job.[15] A UK Working Lives survey with 5,136 employees similarly found that satisfaction with salary is only slightly associated with how happy they are with their job overall.[16] In a meta-analysis of 92 studies, Judge and colleagues also found that the relationship between salary and job satisfaction is weak.[17] This weak correlation is the case across different countries, with no significant differences between U.S., India, Australia, Britain, and Taiwan.[18] CIPD research finds that individuals who receive a pay rise are more positive than those who experience a pay freeze or cut and that those towards the top of the earnings pile have greater feelings of pride, value and motivation than those towards the lower end.[19] However, the generally weak link between salary and satisfaction can be explained partly by the fact that the link between salary and job satisfaction may only be present in those individuals who are especially motivated by external sources of reward[20 21], but also that how an employee feels about their salary (e.g. whether it is fair) is more important than the exact amount they are getting paid:

Intrinsic versus extrinsic motivation

Salary increases job satisfaction for those who are extrinsically motivated: An important factor in the relationship between salary and job satisfaction is a person's motivation - specifically whether it is intrinsic or extrinsic. Intrinsic motivation is doing an activity because it is internally rewarding (such as for the pleasure of learning something new or achieving something), rather than because of external factors.[22] Extrinsic motivation, on the other hand, is driven by external demands, encouragements or rewards.[23] For example, one study found that students with stronger extrinsic values, as measured by a questionnaire, demonstrated a stronger (positive) relationship between base salary and job satisfaction once they entered the labour market than their counterparts with stronger intrinsic values.[24] In another study, Cho and Perry analysed real-world data from a representative sample of over 200,000 U.S. public sector employees and found that when employees are focused on external rewards, employee satisfaction levels were higher with higher pay.[25] Additionally, Hofmans and colleagues surveyed nearly 600 employees in a variety of industries and found that extrinsic rewards - like money - increase job satisfaction, but only in employees who are extrinsically motivated, and not in those who are intrinsically motivated.[26]

This is important because if you assume that all employees are incentivised by higher salaries and financial rewards, you may find yourself inadvertently demotivating employees who are intrinsically motivated. In a pre-post trial with 600 U.S. salespeople, Thibault-Landry and colleagues found that when a mixed cash and prize reward program was replaced with an equivalent value all-cash package, employee effort dropped dramatically, leading to a 4.36 percent decrease in sales that cost the company millions in lost revenue.[27] This can be explained, at least in part, by the fact that an all-cash reward is less rewarding and effective for intrinsically motivated employees.

Salary increases job satisfaction if it is similar to that of your peers: A second important factor is how an employee's salary compares to that of their peers - what we refer to as 'relative salary'. For instance, a field experiment with 2,060 workers at a large, multibillion dollar commercial bank in Southeast Asia found that a higher perceived peer salary negatively impacts employee pay and job satisfaction, as well as tolerance for pay inequality.[28] Cullen and Perez-Truglia found that for every 1 percent higher salary a co-worker earned over the employee's expectation, they worked 0.94 percent fewer hours, and the chances that they'd leave the company increased by 0.225 percent; however, the latter effect was not statistically significant.[29] Data from two UK surveys (representative of industry in the UK in terms of size and sector of business) also finds that if employees perceive their salary to be lower than that of their peers, their job satisfaction decreases.[30] Similarly, a randomised controlled trial in the U.S. showed that discovering that a peer made more money than them made people highly dissatisfied with their jobs and increased the likelihood of them searching for a new job compared to those who did not know how much money their coworkers made.[31] However, those who were able to discover that they earned above the median did not report any higher satisfaction than those who did not receive the information. This suggests that receiving lower than average pay has a greater (negative) impact on satisfaction than receiving an above average salary. [32]

There are benefits to salary transparency, though. For instance, 'structural inequalities' are harder to hide when salaries are transparent.33 If everyone knows everyone else's pay level, patterns of discrimination are easier to detect, and remedy. A recent study found that making salaries transparent led to a 5 percent increase in the number of women working in jobs which paid above the market average. The study also found that salary transparency led to a 2.8 decrease in men's hourly pay, reducing the gender pay gap by 15 percent.34 This suggests that transparency in pay can be one way to improve gender equality in organisations.

Perceived fairness of salary:

Salary increases job satisfaction if it is perceived to be fair: Another key factor is the extent to which an employee feels that their salary is fair in relation to their peers.[35] A meta-analysis of 203 papers showed that the strongest antecedent of pay satisfaction was the perceived salary of others and how much effort they were perceived to put into their job. Pay satisfaction was strongly associated with the perceived salary as well as effort of employees **both within the same organisation and those doing similar work but at other organisations.**[36] The meta-analysis also finds that people who believe the process the manager used to make decisions about salary was fair - a case of 'distributive justice[37] - experience significantly greater pay and job satisfaction.[38] A survey-based study of 2,867 public sector research workers in Australia also showed that workers who believed the company's processes were fair displayed a high level of job satisfaction.[39] Additionally, a field randomised controlled trial, where over 300 Indian seasonal manufacturing employees were randomly allocated to be paid less than their peers or the same as their peers, showed that productivity reduced by 22 percent and attendance by 12 percent on average when an employee was paid less than their co-workers. However, the study found no negative effects of pay disparity where employees could easily see that their co-workers were more productive than themselves: this suggests that pay inequality in itself is not necessarily problematic - at least not if it is clearly justified.[40] The central idea that emerges from these findings is that people are more satisfied with their jobs when they are treated fairly, i.e. when both themselves and their peers get the compensation they deserve for the amount of effort they put into their job.

3.1.2 Job retention

Salary appears to be one of the practical drivers that determine employee retention[41], although studies have shown that it is not the primary driver. The results of a retention survey in the United States of over 700 employees and over 100 HR professionals, found that employees ranked quality of compensation package the sixth most important reason affecting retention (quality of relationship with manager was ranked first and work-life balance second); while HR professionals ranked it as the second most important reason.[42] Work by the Institute for Employment Studies (IES) found that among clerical, administrative and professional employees leaving financial sector organisations pay was not cited as a main reason for leaving, in fact less than 10% of leavers cited pay as a reason at all. However, we do not know whether these employees left for another role within financial services and/or with similar levels of pay, and therefore salary was not a main concern.[43] We also note that this IES research was conducted in the 1990s - since then the labour market has evolved and therefore the findings may not be true or as relevant to current employees. A survey of 2,000 employees and over 500 employers from varying business sizes conducted by Aviva, found that when questioned about why they stay with their employers, 44% of employees stated that work-life balance was one of the main reasons why they continued in their current role and 40% stated salary.[44] A quantitative survey conducted amongst 200 employees working in the banking sector, found that both monetary and non-monetary rewards are positively linked with employee retention and it is the presence of both reward systems that yield the positive impact on retention. This led the researchers to conclude that the absence of one reward system will render the implemented reward program ineffective. For example, if monetary rewards are all that are offered, retention levels are likely to drop.[45]

With regards to the size of pay increase likely required to facilitate employee retention, grey literature by Glassdoor, found that a 10% increase in base pay is associated with a 1.5% higher chance that a worker will stay at the company for their next role. Furthermore, this finding holds true when controlling for measures of company culture, job title, industry, job location and other factors. However, the research also found that 37% of job moves within the sample analysed by Glassdoor, resulted in lower pay for workers. This shows that employees will leave for lower pay, thus suggesting other factors (such as company culture and career development opportunities) are more important than pay in retaining employees. The research was conducted in the U.S. and analysed over 5,000 job transitions extracted from CVs on Glassdoor between 2007 and 2016. However some caution must be used in interpreting the data as data is based on CVs shared on Glassdoor which may not be fully representative of the U.S. workforce, base pay for each job was estimated using Glassdoor salary data and the information people include in their CV may not always be an accurate reflection of their experience.[46]

Relative salary: As with job satisfaction, relative salary is a factor in employee retention. Analysis of data on a sample of 900 workplaces across Britain from the United Kingdom's Workplace Employee Relations Surveys 1997 - 1998 (WERS98), in which mean pay was £258 per week, has shown that greater positive pay distribution (i.e. where the majority of workers are near the bottom of the salary range paid by the employer) is associated with higher employee turnover.[47]

3.1.3 Wellbeing

Pay is an important factor in determining employee wellbeing, although not the most important one. In their research on the ways in which work and workplace quality influence people's well-being around the world, Krekel et al. found that pay is an important factor for employee wellbeing, and this is universal across employees who are employed or self-employed and working full-time or part-time, or between genders and different levels of education. However, it's worth noting that the research found that other factors such as little stress at work or work-life balance are equally, if not more, important in determining employee wellbeing.[48] In terms of the level of pay required to facilitate wellbeing, a 2010 study of employees in the U.S. found that emotional well-being levels (i.e. the emotional quality of an individual's everyday experience) increase with salary levels up to a salary of $75,000 (~£50,000). The research shows this is because lack of money brings both emotional misery and low life evaluation (life evaluation refers to the thoughts that people have about their life when they think about it). Furthermore, life's challenges such as ill-health, divorce and being alone are significantly exacerbated by poverty and the benefits of the weekend are less for those on lower income. However, emotional well-being levels plateau after salary levels of over $75,000 suggesting that above a certain level of stable income, individuals' emotional well-being is constrained by factors other than pay, such as their life circumstances.[49]

Relative pay: As with job satisfaction and retention, relative pay is also an important factor in determining employee wellbeing. The work by Krekel et al. analysed both the actual income of respondents and their subjective assessment of whether that income is high. It was found that both elements are important, however objective income is a little more important in determining employee wellbeing than subjective income.[50] An analysis of 16,000 British employees, shows that employee wellbeing levels are statistically significantly linked to the rank of an individual's wage within their workplace. The greater the rank of an employee (i.e. the higher up the pay scale they are in an ordinal sense), the higher their wellbeing levels are likely to be.[51]

3.1.4 Equality, diversity and inclusion

Age: Younger and older employees place different value on monetary rewards, including pay. A multisource study with 166 managers, found that while younger employees (participants in this group had an average age of 37.6 years) were satisfied primarily by monetary rewards, older employees (participants in this group had an average age of 55.6 years) were satisfied primarily by their task contributions. In fact, older employees can have a complex relationship with monetary rewards; high pay levels can have a negative impact on older employees job satisfaction when task contributions are low, because being over-rewarded in proportion to their contributions can trigger aversive feelings of dissonance.[52]

Gender: On average, women are less likely to negotiate their pay, and this can lead to women having lower starting salaries than men - a problem which can persist and grow over time.[53] [54] In order to encourage more women to negotiate, employers can state what the precise salary range on offer is, and whether the salary is negotiable - as one of the reasons women negotiate less is they can be penalised when they do. This transparency about what is available and whether negotiation is encouraged can therefore help improve gender equality, by giving an important signal about what is appropriate.

Salary Recommendations

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

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

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

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

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

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

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

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

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

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

3.2 Bonuses

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

ONS data from 2017 suggests that bonuses as a percentage of total pay were 6.2% overall, with the financial and insurance industries paying the highest average bonus per employee.[55] In the financial and insurance industries bonuses contribute to almost a quarter of annual pay, but for the rest of the economy they contribute to 4.5%.[56]

Summary of findings:

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

3.2.1 Job satisfaction

A survey from Aviva conducted with over 2,000 employees across 502 companies of different sizes in the UK showed that bonuses were an appealing perk for only 25% of respondents, compared to more vacation time (44%) or flexible work hours (39%). The survey also found that only 9% of people report that bonuses are a major factor in considering whether to stay in their current job. [57]However, bonus schemes may have very different effects on employee job satisfaction depending on how they are structured - that is, whether the bonus is in the form of performance-related individual pay, profit-related pay, or share ownership. For instance, employees who are offered either individual-based incentives or profit shares tend to report higher job satisfaction.[58] However, interviews and questionnaires conducted with over 13,600 employees across nearly 1,300 private-sector workplaces in the United Kingdom showed that, although performance-related pay was positively associated with job satisfaction, profit-related pay did not have similar positive effects; in fact, some levels of profit-related pay resulted in employees being less committed and less satisfied with their job.[59] High employee uptake of share ownership was associated with reduced job satisfaction, and did not impact employee well-being.[60] Evidence suggests this could be because as with any group incentive plan, profit sharing may result in some employees gaining from the effort of others with no greater effort on their part (thus resulting in some employees working harder) - known as the 'free rider problem'. Another possibility is that employees cannot see strong links between their effort and their company's performance.[61] Other studies have found that profit-sharing initiatives are associated with positive employee outcomes.[62] [63] For instance, a survey of over 40,000 employees in 14 U.S. firms found that employees in receipt of group-performance bonuses or profit shares, and those in share-ownership schemes, tended to identify more strongly with the organisation than those on standard fixed-pay contracts, and have higher job satisfaction and work harder as a result.[64] A 2008 survey-based study with nearly 12,000 UK employees finds a similar effect - higher levels of job satisfaction with performance-based and profit-sharing initiatives.[65] This study also highlights the need to account for differences between genders and sectors, for example. These factors are outlined below:

Performance pay increases men's job satisfaction, but not women's: The work of Green and Haywood[66], and more recently, Ledic[67], shows clear evidence that individual performance pay and profit sharing affect men and women differently. For instance, men, but not women, tend to report higher job satisfaction when they receive cash incentives calculated based on the annual profit-sharing amount. More specifically, men reported higher satisfaction with pay and job security, whereas women reported higher satisfaction only with job security. Similarly, individual-based incentives increased satisfaction with work hours, pay and job security for men, but only increased pay satisfaction for women.[68] Another study also found that although all incentive pay schemes — performance-related pay, profit-related pay, and share ownership — were associated with an increase in job satisfaction for both genders, job satisfaction for men was higher for all of these incentives, whereas women's satisfaction only increased in jobs offering individual-based incentives.[69] Women's lower satisfaction when offered team-based rewards is supported by research showing that women feel more peer pressure when operating in groups.70 However, there is also evidence which shows the contrary: that when men and women are asked to choose between team and individual compensation, women tend to choose team compensation more frequently than men.[71] However, some caution must be used in interpreting these data as they are based on a laboratory experiment with students in the U.S.

On balance, it looks like performance pay may increase job satisfaction for men, but has little or no impact on women's satisfaction with work. The effect of bonus schemes on job satisfaction differs between sectors, as well. For instance, one study found that employees in the manufacturing and contracting sectors are likely to exhibit higher levels of job satisfaction compared to the primary and service sectors.[72]

Performance pay increases job satisfaction for those with higher salaries: Data from a UK representative survey of over 9,000 employers (representative of industry in the UK in terms of industry, sector and occupation) finds that bonuses increase job satisfaction, but only in those in higher-paying occupations (e.g., CEOs, managers) and industries (e.g., finance, banking, insurance), who also receive higher salaries.[73] Evidence suggests this is because in jobs that are paid less and/ or have some aspect of social service, employees are often perceived not to be 'in it for the money' and hence, it is thought, financial incentives like bonuses can interfere with or even 'crowd out' their intrinsic motivation.[74] On the other hand, incentive pay is effective for financial professionals who - as a survey of 465 bankers in Germany finds - have higher monetary motivation than the general population.[75]

Bonuses increase job satisfaction but only if they are large enough: An analysis of the British Household Panel Survey (BHPS) between 1998 and 2007 suggests that the existence of incentive pay schemes is associated with greater job satisfaction.[76] However, after controlling for factors that potentially affect the influence of a bonus scheme on job satisfaction, only large bonuses (defined as being greater than 25% of an individual's salary) had a positive impact on job satisfaction. This implies that smaller percentages and amounts may not work as well. Indeed, small bonuses (defined as less than 1% of an employee's salary) had a significant negative effect on employees' satisfaction with their work. Further, a survey of over 40,000 employees in the U.S. finds that bonus payments impact positively on employees' job satisfaction but only if they receive a large enough share of pay in bonuses.[77]

Larger bonuses made both men and women feel more satisfied with their jobs; however, men were more satisfied than women when the bonus amount was at the very top of the bonus distribution. This could explain why individual bonuses and profit sharing schemes have previously been found to be more effective for men rather than women on average.[78]

Does it matter when a bonus is paid? Present bias is the tendency for people to overvalue immediate rewards, at the expense of long-term benefits or costs. For instance, the longer people have to wait for rewards, the more likely they are to settle for a smaller immediate reward.[79] Whilst there is not strong evidence looking at how present bias affects people's attitudes towards bonuses, this may suggest that employees are likely to prefer smaller, more immediate bonuses, to long-term options - and that more regular bonuses could therefore encourage higher employee retention, if staff are unable to accurately calculate the value of deferred options. A survey with 1,106 executives across 43 countries showed that executives, particularly those under the age of 39, have more immediate financial needs and are more likely to value money today over money tomorrow. And this tendency to discount future awards heavily was replicated across all sectors.[80] However, there are studies that counter this finding: a randomised field experiment at a large Indian company that manufactures and sells consumer goods with 5,000 salespeople found that unconditional bonuses were only effective when given as a delayed reward. However, we note that this study looked at weekly payments over a 6-month period, so may not be relevant to longer performance/reward cycles.The study also found that the effectiveness of the delayed bonuses appeared to decay when such a reward scheme was repeated over time.[81]

How should bonuses be framed? One field randomised controlled experiment randomly allocated 150 teachers to receive a bonus of up to $8,000 at the end of the year, or as a start-of-year lump sum but under the assumption that some or all of it would have to be returned if their students did not meet performance targets. Gains in student performance were seen only when the incentives were framed as a loss rather than as a gain - i.e. teachers felt they were in danger of losing a bonus rather than gaining one. [82] This is consistent with findings from a natural field experiment in a Chinese high tech manufacturing facility, where researchers found that teams more acutely respond to bonuses posed as losses than to comparable bonuses posed as gains.[83] However, a randomised field experiment at an Asian consumer good company found that punitive bonus plans - where a bonus would be withdrawn if salespeople did not meet their quota - did not significantly alter performance when compared to a normal bonus plan[84]. We note that it is highly unusual for employers to use punitive compensation.

Pouliakas conducted an analysis of the British Household Panel survey, and found that the removal of a bonus scheme has a negative impact on job satisfaction, such that it may be better to leave in place an ineffective bonus scheme than to remove it.[85] Employees who had their bonus withdrawn reported lower job satisfaction than employees who did not receive a bonus at all. These findings accord with the idea of loss aversion.

3.2.2 Job Retention

Interviews and questionnaires conducted with over 13,600 employees across nearly 1,300 private-sector workplaces across Britain showed that profit-related pay (which included bonuses) was negatively associated with organisational commitment (employees' level of attachment and identification with their organisation). However, the research also found that where higher levels of employees participate in profit-related pay, this has a positive effect on organisational commitment. This suggests that bonuses might have a negative effect on employee retention if only available to a few employees.[86] Some studies conducted in the banking sector across different countries show the positive impact of bonuses on employee retention. For example, a survey of 100 employees of a bank in Pakistan found that bonuses were a key factor in employee retention and the absence of a bonus had a significant negative impact on retention. However the research also found that training and development (and not bonus) had the most significant impact on retention.[87] A survey among 197 employees of the Commercial Bank of Ethiopia (CBE), found that payment (including salary and bonus) along with work environment, accounts more than the other factors (such as medical insurance, paid-sick leave, learning and development) in affecting employees' likelihood to stay at the CBE. Furthermore, increasing payments for employees also increases employee retention.[88] That said, there are also studies that counter this finding; a survey of 370 employees from banks across Tanzania exploring the impact of compensation on retention, found that only fair salary had a positive impact on retention. Other compensation factors, including bonuses, were not found to be significantly related to retention.[89]

Flexibility and autonomy over benefits choices leads to greater retention. A survey of over 300 HR managers in Spanish organisations found that organisations providing more flexible compensation systems (i.e. providing employees greater freedom to choose the benefits that best suited them and designing the benefits system) reported higher retention levels than organisations offering fixed benefit systems (i.e. providing similar benefits packages to all employees).[90]

3.2.3 Wellbeing

The evidence on the impact of bonuses on employee wellbeing is mixed. Analysis of data from the 2002 and 2006 General Social Surveys (GSS), which is a nationally representative survey of adults in the U.S., shows that performance bonuses do improve employee happiness, but only in the private sector.[91] However, large scale survey data among senior managers (working in HR and financial management) and employees in UK private sector organisations, revealed that individual bonuses may be experienced by employees as a burden that only provides extra pay through an intensification of the work process, which suggests that individual bonuses influence employee wellbeing in an unsustainable way.[92] Furthermore, research in the US and India has shown that very high individual bonuses are ineffective at improving employee morale.[93] However, there is evidence which shows the positive impact of group-based performance bonuses and prosocial bonuses (Eisenberg et al. define prosocial behaviour as behaviour intended to benefit one or more individuals other than oneself)[94] on employee wellbeing. Bryson et al., conducted analysis of three different sources of data on UK employees (one multinational business services corporation, the European Working Conditions Survey (EWCS), and the British Household Panel Survey (BHPS)) using job satisfaction as a proxy metric for employee wellbeing. Their analysis revealed that employees that receive group-based performance pay (such as group-bonuses) have higher employee wellbeing than other employees.[95] In a field study, Anika et al. showed that prosocial bonuses - in the form of donations to a charity - lead to happier employees at an Australian bank. In two further field studies, they showed that prosocial bonuses in the form of expenditure on teammates, led to better performance in both sports teams in Canada and pharmaceutical sales teams in Belgium.[96]

Bonus Recommendations

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

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

Employers should consider implementing prosocial bonuses to improve employee wellbeing

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

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

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

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

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

3.3 Paid annual leave

Context: In the UK most workers who work a 5-day week must receive at least 28 days' paid annual leave a year (pro rata for part-time staff).[97] At least 25 days of paid leave was offered by 59% of employers in 2018, down from 73% in 2013.[98] A small number of organisations offer unlimited annual leave. Some organisations offer increased annual leave entitlements in line with employees' tenure.

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

Summary of findings:

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

3.3.1 Job satisfaction

According to Glassdoor's 2017 Guide for Recruiters, about 80% of employees would choose additional benefits, such as more vacation time, over a pay rise. The survey also found differences between generations. Most notably, more vacation time was an appealing perk for those aged between 18 and 34 (only 70% of 45-54-year-olds and 66% of 55-64-year-olds said the same).[99]

Offering an unlimited time-off policy can be a win-win for employer and employee. However, the negative effects of unlimited-vacation-days policies implemented by companies like Virgin and Netflix suggest that switching to an unlimited time-off policy does not necessarily improve employee satisfaction. In fact, there is evidence that these companies' employees take fewer days off than employees working for companies with a national paid leave policy since - because there are no guidelines - there is uncertainty about how much time it is okay to take off and there is worry about being seen as the person who takes the most vacation days.[100] This is likely related to our tendency to conform to group behaviour in fear of judgement if we do not assimilate to group norms[101], and could potentially be tackled by senior staff visibly role modelling their own use of their annual leave entitlement.

Lower rates of leave-taking where leave is unlimited may also be related to behavioural concepts around scarcity, which suggests that when something is scarce, we are more likely to value it.[102] Employers who choose to offer unlimited leave could therefore seek to encourage higher uptake by reminding employees that their annual leave entitlement is unique, and not available among most other employers (to counteract the scarcity effect).

In one study with Santander UK, the Behavioural Insights Team found that 'pluralistic ignorance' might be preventing dads from making use of their full shared parental leave entitlement[103]. This is the tendency of people to hold a particular opinion privately while mistakenly believing the majority of people disagree with that opinion. In this case, the researchers found that Santander UK staff would encourage male colleagues to take 8 weeks of leave, but thought their male colleagues would only encourage around 6 weeks. When feedback was provided on actual norms, there was a 62% increase in the proportion of men who intended to take between 5-8 weeks of parental leave. This suggests that men underestimated their peers' support for dads taking leave, and that this may have prevented them from taking leave themselves - perhaps because they feared negative repercussions. Simply correcting these misperceptions by sharing accurate feedack about social norms supported dads to plan to take more leave.

3.3.2 Job Retention

Recruiters and HR professionals say that providing paid leave to employees is increasingly making the difference in recruiting and retaining top talent.[104] The results of a survey in the UK of over 2,000 employees working across 502 companies of different sizes found that 44% of employees ranked 22-35 days of paid annual leave the most important benefit for them, followed by company pension (41%) and flexible work (39%).[105] A 2016 survey by a management consultancy firm also found 77% of US employees said that whether a company offered paid leave - and the length of it - had some bearing on where they chose to work. Half said they would rather have more paid leave than a pay rise.[106]

Paid leave can increase retention especially for women and diverse talent. When Google expanded its paid parental leave policy from 12 to 18 weeks in 2007, the retention rate of women post-maternity leave increased by 50%.[107]

Paid Leave Recommendations

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

Managers should encourage their team to take time off, such as by
- offering flexibility
- modeling behaviours themselves by taking advantage of their own time off
- measuring and communicating positive social norms to combat 'pluralistic ignorance'

3.4 Pension contributions

Context: Since automatic pension enrollment 78% of workers are in a workplace retirement scheme[108] with pension membership associated with higher base pay. The default contribution levels under pensions auto-enrolment are 5% employee contributions with employers contributing a further 3%. However, saving 8% of your salary is not sufficient for most people to reach a comfortable retirement.

Summary of findings:
- Employer pension contributions are a benefit that is greatly valued by employees
- Despite this, we did not find empirical evidence to suggest that pension contributions affect employees' satisfaction

Rather, emerging evidence suggests that mention of generous employer contributions in job adverts may attract older workers.

3.4.1 Job satisfaction and retention

There is evidence that employer pension contributions are a benefit that is greatly valued by employees. The results of a survey in the UK of over 2,000 employees working across 502 companies of different sizes, found that 41% of employees ranked company pension contributions as the most important benefit for them. [109] This is in line with research by The People's Pension and YouGov (a survey of 1,008 UK employees and 500 UK-based HR decision makers) that finds that 83% of employees value their employer pension contributions as a benefit second only to paid holiday leave. [110]

However, it is likely that employee age determines how much they value employer pension contributions. In BIT's own research we found that job adverts including the benefits "flexible working opportunities" and "generous pension contributions" were associated with significantly higher likelihoods of older applicants applying.[111] However, for younger employees these benefits are not as attractive. Even after auto-enrolment was introduced in the UK, over a third of young people (37.3%) either didn't have a pension or did not know if they had one. Even at age 29, around a quarter (27%) reported either not having a workplace pension or not knowing.[112] Behavioural science literature shows that we do not relate to our future selves and it is difficult for us to make decisions that will pay off in the long-term, if there is a cost in the short-term (i.e. lower immediate income when saving for a future pension). This is important as it means that increasing pension contributions may be less likely to truly motivate and increase job satisfaction of young people, although there is no rigorous evidence for this. Even so, employers can play a key role in supporting employees to increase their pension contributions, for example by encouraging employees to commit in advance to allocating a portion of their future salary increases towards their pension.[113]

3.4.2 Equality and diversity

Automatic enrollment substantially boosted pension membership, and equalised participation rates for groups with low levels of financial security - including those with little to no savings, those with lower incomes and younger employees.[114] There is strong evidence from the behavioural science literature to show that people are more likely to choose the default option, with one meta-study discovering that default options are selected 27% more on average - which may help explain the success of pension auto-enrollment.[115] Indeed, more than 90% of eligible UK workers stick with the default pension scheme they are automatically enrolled in.[116] However, this also poses some challenges - as most employed workers need to save more than the default contributions in order to save for retirement, whilst other groups - such as those who cannot afford basic necessities - may benefit from increasing their current gross earnings rather than saving for a pension.

There is a 'gender pension gap', with women having lower average private pension wealth, and therefore lower income in retirement, than men.[117] This is driven by a range of factors, with divergences in pension participation rates between men and women broadly mirroring the gender pay gap which suggests that women may change their saving behaviour around the time they become mothers, in their thirties. Many women who go on maternity leave or reduce their hours to work part-time may not be fully aware of the implications for their future pensions.[118] Full-time employees were 1.5 times more likely to have a pension than part-time employees, and public sector employees were still more likely (90%) to have a workplace pension than those in the private sector (73%)[119]

Pension Recommendations

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

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

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

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

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

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

Encourage employees to increase their pension contributions when their financial circumstances change - for instance, defaulting payments from completed student loan repayments or childcare vouchers that are no longer needed to pension payments
Employers could pinpoint times when employees will have more disposable income, including any bonuses or pay rises, and encourage investment in a pension.

4. Non-monetary benefits

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

4.1 Company ownership

Context: The employee-owned business sector in the UK is growing because employee-ownership is proving to be a durable and successful business model. Employees in employee owned businesses tend to be more entrepreneurial and committed to the company and its success and employee-owned businesses tend to be better at recruiting and retaining talented, committed staff.[120] Furthermore, research suggests that shared ownership delivers superior business performance including increase in sales and operating profits.[121] The top three largest employee-owned companies are John Lewis Partnership plc, Mott MacDonald Group Ltd and Arup Group Ltd.[122]

Summary of findings:

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

4.1.1 Job satisfaction and retention

Employee ownership is associated with higher employee satisfaction, engagement and commitment to their company.[123] For instance, survey evidence suggests that staff of employee-owned companies report higher levels of job satisfaction compared to those in non-employee owned businesses, with 80% of respondents saying that they were either very satisfied or satisfied with their work (compared to 72% of respondents working at non-employee owned businesses). 80% of staff of employee-owned companies would also recommend them as places to work.[124] Further, employees who have equity in their business report higher levels of satisfaction than employees who were given a financial incentive instead; we note, however, that satisfaction levels were highest when employers offered a team-based reward alongside the company shares.[125] Similarly, a review of studies conducted in the United States and Europe showed that employee owners have higher levels of job satisfaction - overall with their work, as well as with their pay and job security, felt that they had more influence, and were more motivated to do their job well.[126]

Company ownership has a positive impact on retention, too. Studies from the early 1990s with U.S. companies shows that employee ownership structures which combine financial incentives with greater employee involvement in decision making reduce turnover.[127] [128] In fact, a U.S.-based study found that employees stay with their company for 5.2 years, on average, when the company is owned by its employees - this is compared to 3.4 years for non-employee owned companies.[129] We would have preferred to have been able to use more recent data sources but in most cases these just were not available and therefore the studies mentioned above should be treated with a degree of caution.

In an article by the Harvard Business review, Rosen and colleagues warn that higher productivity, higher job satisfaction and lower turnover are only achieved if the ownership structure is 'done right': a significant portion of the workforce - generally, most of the full-time employees - must hold equity; employees must think the amounts they hold can significantly improve their financial prospects; managerial practices and policies must reinforce the plan; and employees must feel a true sense of company ownership. Those factors add up to an ownership culture in which employees' interests are aligned with the company's, and job satisfaction is increased as a result.[130] Research in the U.S. shows that employee ownership (as measured through shared compensation) is associated with lower turnover and greater loyalty and willingness to work hard - particularly when combined with high-performance policies, defined as employee involvement, training, and job security, low levels of supervision, and fixed wages that are at or above market level.[131]

Company Ownership Recommendations

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

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

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

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

4.2 Flexible working

Context: According to research by Timewise, 87% of UK full-time employees either work flexibly already or wish they could.[132]
However, despite seismic shifts as a result of COVID-19, Timewise found that the proportion of jobs advertised with flexible working options remains low - at 22%[133]. Whilst many employers are considering what future hybrid working models might look like, some employers and states are experimenting with even more innovative approaches, such as a 4-day-working-week.[134] [135]

Summary of findings:

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

4.2.1 Job satisfaction

Giving employees more choice and control over which hours they work improves work satisfaction.[136] [137] For instance, Bloom and Jiang gave their staff in China the opportunity to volunteer to work from home for nine months. Half of the 16,000 employees were allowed to telecommute; the rest remained in the office as a control group. Survey response and performance data showed that, in comparison with the employees who came into the office, the at-home employees were happier, less likely to quit, and more productive.[138] Similarly, a randomised field experiment with over 180 employees showed that remote working led to increased job performance and job satisfaction; this effect was greatest for mothers.[139]
A survey-based study in the UK also found that employees who had the option to work flexibly also reported higher job satisfaction.[140] The survey also found that offering flexible working options improves work life balances and boosts employee satisfaction as a result.[141]

4.2.2 Retention

Survey evidence shows that the provision of flexible working practices has a positive impact on staff retention.[142]
A UK representative survey of 1,000 employers (representative of industry in the UK in relation to size, sector and type of business) and 2,000 employees (representative of sector and size (private, public, voluntary), industry type and full-time/part-time working by gender) found that nearly three quarters of employers feel that implementing flexible working practices has a positive impact on staff retention. From an employee perspective, a third of employees report that flexible working has been a factor contributing to them staying with their current employer. Qualitative research shows that flexible working arrangements play a critical role in retaining staff because of the value employees place on it.[143] The research involved speaking to HR directors in UK organisations, who reported offering flexible working was a way of keeping talented employees from leaving the organisation and they "would rather offer someone flexibility than lose that experience". Furthermore, offering flexible working helped foster loyalty and attachment to the organisation.

4.2.3 Employee wellbeing

Research has shown that flexibility of working arrangements is linked with greater employee wellbeing. Results from longitudinal data obtained from a large multinational company showed that increased workplace flexibility was associated with decreased sickness absence and work-related impairment and improved job commitment over a 1-year period.[144] Qualitative research among senior HR professionals working at UK organisations found that flexible working helped improve staff wellbeing, which in turn made them more effective workers.[145] Evidence suggests this is because flexible working hours promote and facilitate work-life balance, and increased employee wellbeing (along with reduced stress) are outcomes of the work-life balance.[146] Furthermore, flexible working can lead to healthier lifestyle choices; a survey conducted by CIPD in 2021, found that a fifth of employees say flexible working helps them stay healthy by allowing them more time to exercise or make sensible lifestyle choices, a similar proportion think flexible working reduces the amount of time they take off work sick.[147]

A survey conducted between the 22nd of May and the 15th of June 2020 with the aim of understanding how the COVID-19 pandemic, lockdown and widespread working from home has influenced a range of work-life issues, found that working from home during the Covid-19 lockdown improved the wellbeing of 30% of employees, and increased employee satisfaction of ~23% of employees.[148] Another study of 1,497 working parents between May and June 2020 (mostly employees in mid to senior roles and across a range of sectors) also finds that 79% of people say that their employers being more open to remote or flexible working would have a positive impact on their wellbeing.[149]

4.2.4 Equality, diversity and inclusion (EDI)

Gender: Evidence reveals that perceptions and utilisation of flexible working differ between men and women and gender norms remain an issue for flexible working. However, this appears to be changing as research with HR Directors reveals that some men are taking a greater interest in sharing childcare,[150] while one online study found that both women and men were more likely to shortlist job adverts mentioning flexibility, compared to a full-time offer.[151]

Advertising roles with flexible working options has been proven to increase the number of women applicants to all roles, including senior level ones. An initiative by Zurich Insurance and the Behavioural Insights Team, implemented in 2019, found that advertising all jobs with part-time, job-share or flexible working options, coupled with use of an inclusive statement, led to a 16% rise in women applying for jobs and an almost 20% increase in female applications for management roles. Similar results were seen in John Lewis & Partners, where managerial-level job adverts with part-time working or job share arrangements increased the applicant pool by 50%, and the share of female applicants increased from 38% to 51%.[152]

Before the COVID-19 pandemic, only around 5% of UK employees worked remotely.[153] In the first lockdown, this rose to 33%, and even a year later, over half of UK employees were working remotely to some extent.[154] Following the easing of social distancing restrictions, many employers are currently considering their future models - especially 'hybrid' options. Evidence from a randomised controlled trial conducted in September 2020 suggests that the framing of working from home policies can lead to inequality among men and women.[155] The trial found that setting a specific expectation around how many days staff were expected to work from home led women to reduce their intended number of days working from home, away from their preferred number of days, whilst having no impact on men's intended behaviours. This suggests that a one-size-fits-all approach could unintentionally create a gender gap. The same research found that there was no difference in how many days women and men wanted to work from home when given full autonomy, but that staff with a disability and staff with dependents both wanted to work from home for more days.

There is also some evidence that working from home could help reduce a company's gender pay gap: the more time women can spend working from home, the less time they spend commuting. Long commuting times have been found to contribute to the gender pay gap i.e., women move jobs to work in roles that pay less yet are closer to home, following the birth of their first child.[156] If women are able to reduce their commute time, they may have more choice over employment options.

Flexible Working Recommendations

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

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

Employers should be aware of issues related to flexible working

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

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

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

4.3 Company culture and recognition

Context: Company culture is defined as a set of shared assumptions, values and beliefs that guide how people should behave and interact, how decisions should be made and how work-related activities should be carried out.[157 158] Key factors in an organisation's culture include its history; environment; employees; senior management; career opportunities; work-life balance; and compensation and benefits.[159 160]

Intrinsic rewards based on recognition make employees feel appreciated and happier, which can then lead to increased effort and performance and increased likelihood that the employee will stay at their current company.[161 162 163] Recognition is most effective when it is public, from people whose feedback matters and is communicated at timely moments (e.g., at monthly performance and development meetings).[164]

Summary of findings:

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

4.3.1 Job satisfaction

Recognition and expressions of gratitude, such as sending positive feedback around the office, can make a real difference to employees' sense of job satisfaction.[165] In a survey with over 1,000 UK employees in 2009, employees viewed three non-monetary motivators - one of which was recognition and praise from immediate managers - as or more effective than the three highest-rated financial incentives: cash bonuses, increased base pay, and stock or stock options.[166] Additionally, the results of three field trials within the banking sector show that gifting employees with small financial rewards to be spent on others in their team led to increased job satisfaction.[167] Other studies have shown that people can be motivated because they feel that their work has meaning, and that they are appreciated.[168 169] For instance, a survey of over 150 academic staff finds that employees who received recognition from their employer reported higher levels of job satisfaction than those who were offered traditional financial incentives.[170] However, work by Kosfield and Neckermann warns that recognition works by creating a sense of meaning in people's jobs; therefore, if the recognition or thanks is indiscriminate, it may be more motivating not to receive it.[171] What this means is that how employees respond to a gift or simple 'thank you' would depend on whether or not they think that they are truly being thanked for their work, and their efforts.

4.3.2 Retention

Lack of recognition and acknowledgement is cited as a major factor by employees when leaving an organisation. Research among 1,200 non-management workers (including frontline, hourly and professional staff) showed that: 46% of the employees leaving a company did so because they felt unappreciated, 61% felt that their bosses did not place much importance on them as people and 88% did not receive acknowledgement for the work they did.[172] In fact, research has shown that recognition is a more important factor in retaining employees than salary.

A survey of executives and senior managers, talent managers and HR managers across various industries in South Africa found that performance, recognition and career management was preferred by the respondents as the primary factor in retaining employees.[173] A survey of over 100 employees of a South African bank which looked at the effectiveness of non-monetary rewards - including recognition and feedback - on retention found that nearly all employees placed importance on recognition and feedback as a motivator of employee performance. This highlights the importance of non-monetary rewards such as recognition and feedback in the banking sector and the research goes on to conclude that if implemented correctly, non-monetary factors including recognition can lead to increased staff retention.[174] Grey literature by Glassdoor, reveals that lack of recognition via title stagnation negatively impacts employee retention. In fact, every additional 10 months an employee stagnates in a role makes them 1 percent more likely to leave the company when they move on to their next position. This holds true even after controlling for factors like salary, industry, job title and measures of company culture.[175] In the professional services sector - which is characterised by intense client-employee interactions176 - research has shown that client satisfaction (i.e. recognition by clients) is an important determinant of employee satisfaction, which in turn increases employee retention[177]

Grey literature by Glassdoor, which analysed over 5,000 real-world job moves in the US from CV's on Glassdoor, found that when employees leave an organisation they tend to do so for an employer with better company culture and the factor that matters most for employee retention is company culture. This suggests that company culture may play a key role when workers are choosing whether to stay or leave their current role. Glassdoor measures company culture via the following ratings: overall rating, career opportunities, compensation and benefits, culture and values, work-life balance, and quality of senior management. However, it's also worth noting that the employees in the Glassdoor sample are highly engaged users of Glassdoor who pay close attention to company culture and therefore they may not be fully representative of the wider labour market.[178]

Recognition Recommendations

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

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

Employers could consider building moments of thanks into workplace routines

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

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

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

4.4 ESG rewards

Context: Environmental, social, and governance (ESG) issues are becoming increasingly central to an organisation's reputation and are increasingly scrutinised by stakeholders. However, there is limited research on the impact of ESG rewards on employees.[179]

Summary of findings:

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

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

Age matters: A recent survey by a management consultancy firm shows that Gen Z - those born between 1997 and 2012 - is extremely interested in sustainability issues, with 28 percent of Gen Z respondents saying that climate change and safeguarding the environment is their top concern. The study also directly linked business sustainability with staff retention of this generation. Gen Zs who feel that their employers are making efforts to reduce the company's impact on the environment are more inclined to stay with that employer for at least five years.[180] Similarly, Searious Business, a Dutch company committed to preventing plastic pollution, has seen a sharp increase in job applications from "people wanting a job with purpose", especially from Gen Z.[181] This suggests that people, particularly those from Gen Z, are more likely to apply to, and continue working for companies which focus on reducing their carbon footprints.

Concerns about financial performance of greener funds: There is widespread concern that people may assume that there is a trade-off between what is good for the environment and what is profitable. Indeed, a recent survey by BIT found that just 41% of pension holders think that an environmental fund would perform at least as well as the other funds financially.[182] A direct implication of this is that if employees are concerned about under-performance of green investments, this may have a knock-on effect on financial incentives linked to sustainability goals, or investing more in greener pension funds. However, there are also studies showing that companies that incorporate ESG issues in their investment decisions do better financially. For example, a 2017 study by Nordea Equity Research (the largest financial services group in the Nordic region) reported that from 2012 to 2015, the companies with the highest ESG ratings outperformed the lowest-rated firms by as much as 40%. In 2018, Bank of America Merrill Lynch found that firms with a better ESG record than their peers produced higher three-year returns, were more likely to become high quality stocks, were less likely to have large price declines, and were less likely to go bankrupt.[183]

Move forward on ESG incentive schemes, but move with caution: Blogs by several law firms[184] [185] [186] all reach the same conclusion; while including ESG goals within incentive schemes and/ or linking ESG metrics with executive pay, can be powerful ways to drive change and is something investors are increasingly looking for, boards and management need to tread carefully:

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

ESG rewards recommendations

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

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

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

- ensuring performance criteria are relevant to the company and;
- ensuring sufficient research for accurate measurement against performance criteria

5. Taking behavioural insights into account as you design your framework

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

- **Choice overload and bonuses:** we recommend that employers enable employees to tailor their benefits packages based on individual requirements, but note that people can suffer from 'choice overload' which leads to poorer, more difficult decisions, if people face too many choices[187].
- **Present bias and bonuses:** people tend to overvalue immediate rewards in comparison to long-term gains[188]. This might mean that employees are better motivated by cash bonuses, than deferred share bonus plans.
- **Loss aversion and bonuses:** people dislike loss more strongly than they like gains of equal value.[189] There is some evidence that performance may improve if incentives are framed as a loss rather than a gain[190]. However, we note that this evidence is limited.
- **Defaults and pensions:** people are more likely to choose the default option, and this is likely to have an effect on our behaviours around pension contributions, with many employees sticking with the auto-enrolment default contributions - even if this may not be the right choice for them[191].
- **Pluralistic ignorance and parental leave:** recent evidence suggests that 'pluralistic ignorance' - the tendency for people to hold an opinion privately while mistakenly believing that the majority think differently - could be preventing men from making use of their parental leave entitlement, or working flexibly.[192]

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

- **Remove friction costs:** even small, and apparently minor details, can have a disproportionately large effect on whether people complete a task or not.[193] By removing these friction costs, we reduce the effort people need to put in, and make it easier for them. This is relevant across the pay and reward system. For instance, employers should seek to make it easy for people to change their default pension contributions, to book annual leave, or to request flexible working.
- **Make processes clear and transparent:** There is evidence that salary transparency can help to reduce employers' Gender Pay Gaps[194]. Employers should seek to be transparent about the processes used to determine pay and reward. Wider evidence shows that operational transparency can increase customer satisfaction.[195]
- **Make use of effective role models:** people give different weight to information depending on the role of the person communicating the information.[196] Employers could identify effective messengers to role model behaviours they would like to encourage - for instance, asking senior men to visibly role model flexible working.

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