

Reward: highlights

We continue our recently-introduced practice of producing Executive Update Programme meeting notes in magazine format.

Round-the-table update: recession, 2008-style

All the classic characteristics of IT in a recession are now present - but with some new twists. No one will be surprised at headcount restrictions and the fact that some companies are seeking to cut contractors to the absolute minimum - zero if possible. But this is the first time we have heard of pressure being put on offshore suppliers in quite this way. Some offshored projects are being cut: no matter how cheap, a canned project still saves money. Other Indian suppliers are being encouraged to put rather more of their effort offshore rather than have (say) 30% onshore eating away at cost savings.

One company (call it X), having recently placed a contract with an Indian supplier, was unamused to read ads in the UK seeking to recruit IT workers *'with knowledge of X's systems'* to work on the Indian supplier's side of the project.

IT base pay: Rapidly falling expectations!

We have an unusually interesting and complex situation on base pay increases this winter. Early in 2008 higher inflation and an economy whose worries were restricted to the banking and housing sectors meant that base pay increases looked set to ease upwards. The May 2008 pay survey from leading UK provider CEL (Computer Economics Ltd) showed headline year-on-year increases in IT of nearly 5% for the previous year, pushing up pay review expectations.

But since then, expectations have plummeted, in the face of recession. Our survey of past increases and expectations for 2009 was published in November and gave data collected in October and November. The most recent IT pay update available anywhere, it said base pay increases for mainstream IT staff in 2008 were 3.8% - and for 2009 just 3.0% was the expectation.

At this Executive Update Programme meeting, even this 3.0% figure was in doubt in a rapidly-changing IT pay scene, with one company saying their IT staff would expect and accept less given the rapidly deteriorating situation.

IT Reward: the BIG picture

In stark contrast to the situation some years ago, IT pay is in a new phase where the market has cooled and pay is no longer the worry that it was. It would be tempting to conclude that there is nothing much happening in IT pay but this is not the case. What has happened is that the 'action' in IT pay has moved from the strategic use of pay to issues surrounding its tactical use. There are a number of areas where we see concerns and activity. They are:

- Pay for standby or on-call staff
- Pay for shift working
- Retention bonuses
- Sign-on bonuses

Each was considered at our meeting.

Next meeting: 5 March 2009 on ...

Learning & development

Our next meeting is on Thursday 5 March 2009 and will cover the area of IT learning and development. We have some interesting sessions planned!

One is on the theme of the sideways career: IT careers like many others no longer consist just of upward ladders and Martin Gubler (an ex-Diaz client) is conducting research on this. Martin will pass on his thoughts to us.

Our programme will also bring news of a training programme developed to help IT managers manage in the extended organization - one where the resources are not close-to-hand physically or organizationally.

We should also have a talk about how to equip middle managers in IT to handle the increasingly difficult role they now have.

The retention bonus: when to use, how it works

Retention bonuses came to prominence in IT, labelled as 'loyalty bonuses' in the run-up to the Y2K conversion problem. It was generally expected, after 2000, that they would disappear from sight, never to be used again in IT. But in fact retention bonuses are being used regularly today when there is an individual whose ongoing presence is badly needed by the company, despite the fact that their career interests would very much dictate that they should depart.

For example, small technical teams (typically one or two people) looking after highly specialized legacy machines that are scheduled to be withdrawn in a year or two are sometimes offered retention bonuses. Or where companies who are in the process of outsourcing need to prevent key (disillusioned) staff from immediately departing. Some such have been offered retention bonuses if they delay their departure for 12 or 18 months.

One example cited involved a Middle-Eastern bank that was closing down its London software development team. Shortly after announcing this, half the software team quit. Faced with the prospect of losing the other half before their work had been handed over to the offshore team, the bank offered them retention bonuses of 30+% if they stayed until the handover had been effected. Result: no more resignations, a successful closure of the London team, and value-for-money for the bank.

From our study of retention bonuses the ground rules are:

- Use very selectively.
- Accept that these schemes only work if there is a significant bonus on offer: 10%-20% is probably not enough.
- Multi-stage schemes may be needed if people are to stay for longer periods (more than about a year).

One of their benefits is that unlike many other measures they only cost money if they are effective. Retention bonuses do not of course reduce turnover: they only delay it.

Sign-on bonuses

One of the interesting developments of the last few years has been the increasing use of sign-on bonuses. These are very useful where a candidate is being offered a modest - or even no - pay increase to move, fancies the new job,

and simply needs something to 'tip them over the edge' and make it worthwhile to do so. A typical sign-on bonus might be several thousands, say between 10% and 20% of base. Such bonuses have the advantage that they may allow the employer to maintain parity with existing employees.

This said, members at our meeting did not generally view sign-on bonuses positively. Some recruitment agencies, left to themselves, seem to have offered them too readily to recruits, perhaps motivated by their desire to make the hire and get the commission. Others are sceptical about the ability of such deals to compensate for a poor base pay offer.

Perhaps the tip here is to hold this option very much as a reserve only, and not to use it in lieu of base pay but just as an extra tipping point.

Standby pay: is yours too high?

Standby pay (the extra payments made to those who agree to be ready and willing to deal with IT issues outside working hours) has been an area of steady change for some years now. Unusually, this is one area where pay has fallen very substantially in real terms in the last 20 years. Why? Because being 'on call' has become less and less disruptive as communication technologies advance.

The prime risk for IT reward managers is that their reward policies might not fully reflect these changed circumstances: this was a concern that we discussed round the table at our meeting. It may be that in some companies reward is pitched at levels more suited to the days before mobile phones, laptops and online access.

Our Analyst Note on this (see pack) should be helpful in checking where you are relative to others. As well as giving current market levels it points out how more employers are couching reward in terms of fixed amounts per hour rather than buying standby time by the year.

Project bonuses

Those present were unanimous in disliking project bonuses except as

- An after-the-event treat, as opposed to an up-front incentive
- Reward for very unusual, business-critical, once in a decade, projects.

The hazards here include the difficulties of deciding who was on the team and whether the work done really constituted an extra effort.

Measuring performance

Interestingly, our discussion reminded everyone that it is not universally the practice to assign performance ratings to staff. This neatly gets round the impact of the 'performance perception gap': the finding that 80% of all employees believe they are performing at above average levels! (One other way round that gap we noted recently was found by the company whose equivalent to everyone else's 'fully acceptable' rating was to the 'strong performance'.)

It is getting more common for people to be assessed both on results and behaviour. One company uses an interesting process whereby the managers in a department review all their employees by mapping them all (via Post-It notes with names on them) onto a 9-box grid. The two dimensions of the grid are Results and Behaviours. This is proving very effective in surfacing behavioural issues (e.g. the project manager who reaches targets but invariably at others' expense) and in generating a consensus round individual performance.

In general, performance ratings are used to drive base pay increases and determine bonuses. The mapping is never straightforward, however: the increase in base pay typically will depend on where the individual already sits within the pay band, not just on their performance.

Assessing the productivity and performance of programmers

In any large company the biggest area of IT work, occupying the most people (onshore/offshore, employee or contract worker) is business system development and maintenance. What is sometimes called 'the software

problem' centres round the difficulty of improving (or even measuring) productivity in this crucial area.

The best way to measure productivity is probably the use of function points, and this is a topic that IT and IT HR people should therefore know something about. In the presentation on the topic we learned several key points.

What are function points? They are 'scores' given to applications systems that seek to reflect the amount of useful functionality they add. Function points are allocated on the basis of things like the numbers of different screen layouts, calculations, types of report etc.. So big systems will be awarded many function points, while small ones will get much fewer. Specialist teams do the measurement, seeking always to maintain a high degree of consistent application in so doing.

This helps in estimating development time-scales, resources needed, overall productivity etc.. The function point approach is imperfect but there is nothing generally available that seems to be any better. There are some limitations, as some technologies are easier to develop in than others, and some projects' apparent high (or low) productivity may be rooted in factors other than team effectiveness. But they can be used to measure general progress in productivity improvement across aggregated teams - say above project level but not at project level.

The productivity of a development department can be broadly assessed in terms of function points/ person / year, and this can be very helpful in setting targets and measuring the results from productivity improvement programmes.