

EMBEDDING CSR

# making CSR pay

EDF Energy has designed an innovative company-wide incentive scheme that links employee remuneration to corporate responsibility objectives. The approach is proving effective at changing attitudes within the business

Traditional staff bonus schemes have usually paid employees in relation to their company's financial results. But how would it be if end-of-year windfalls took into account non-financial factors such as safety management at the company or customer satisfaction levels?

You might find an answer at EDF Energy, a UK-based electricity and gas company that has spent the last three years implementing and promoting a new Annual Incentive Plan that puts the company's social and environmental impacts at the heart of yearly bonus payments to staff. Instead of focusing solely on the bottom line, EDF Energy additionally links the annual bonuses of employees – ranging from senior managers to receptionists and engineers – to a series of corporate responsibility priorities.

The result, even at this early stage of implementation, has been to re-focus employee attention on non-financial performance areas that the company believes will give it a competitive advantage over its rivals and prove to be the key to its long term performance in a highly crowded market.

Financial indicators still play an important part in determining annual bonuses, but they are no longer the be-all and end-all. Instead, the Annual Incentive Plan (AIP) is based on five overarching 'ambitions' for the company: to 'care more' for its customers; to be recognized as a 'great place to work'; to meet shareholders' expectations; to be 'a safe and responsible company', and 'to be recognized as a leading and respected point of reference on matters concerning our business'.

Out of these ambitions have grown eight key performance measures – based on factors such as health and safety management, the company's position in the Business in the Community Corporate Responsibility Index, business customer and mass market customer satisfaction levels, and results from an annual employee opinion survey. Only three of the eight are financially based.

Fifty per cent of a staff member's bonus is determined by the company's overall performance on the eight measures, while the other half depends upon the performance of the staff member and the team he or she works within. Managers of each team, in

## the company

EDF Energy is one of the UK's largest gas and electricity companies and supplies energy to a quarter of the UK's population. Part of the global EDF Group, with a turnover of £4 billion (\$6.7bn) and 11,500 full-time equivalent staff, EDF Energy was created by a merger of several UK regional energy companies in 2002. It:

- has taken the unusual step of asking a group of stakeholders to assure its annual corporate responsibility report
- is working with other energy companies and the supplier management information firm Achilles to create a database of details of supplier performance on issues such as human rights and labour standards. Information collected will be shared by the companies involved
- distributes around £750,000 a year through its EDF Energy Trust to support customers who have difficulty paying their fuel bills
- after two years of group-wide negotiation, signed a corporate social responsibility agreement with staff and trade unions from the electricity sector in January 2005 – the first such agreement of its kind

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consultation with staff, have leeway to decide which areas to focus on, which means that teams can better reflect their own priorities when it comes to handing out bonuses.

Thus, while the Annual Incentive Plan of an administrator in the finance department might relate to financial indicators and customer satisfaction rates among internal customers, the same AIP for an employee who maintains overhead lines might be linked to infrastructure improvements and the number of customer minutes lost through supply disruption. Typically each employee has three or four key targets on which they concentrate, but with company performance on all the indicators counting for 50 per cent of their bonus calculation, they are also encouraged to keep their eye on other priorities. 'It's good to have high-level ambitions, but you have to cascade those down so that they apply to people doing their job on a day-to-day basis,' says Mark Bromley, head of business performance.

Bromley reports that the new bonus scheme has been universally embraced by staff, but he is under no illusions that consistently good communication about its aims and achievements is needed if it's to be a long term success. To this end, around 250 large 'performance boards' have been fixed to walls in key sites to show staff exactly how they are doing, on a



■ EDF Energy's 'performance puzzle' is taken around company sites so staff can gain a better understanding of the links between their Annual Incentive Plan and the company's objectives

month-by-month basis, against both their team and their company targets. The boards feature statistics on areas such as recycling, electricity consumption, health and safety, financial performance and local team achievements.

Staff can also consult the company intranet, which carries more detailed data than the performance boards, as well as background information on sustainability issues and website links. Additionally there are regular team briefings and reports to 'engage hearts and minds'. The company also makes use of a large jigsaw – christened the 'performance puzzle' – that is taken around its offices so that staff can gain a better understanding of the link between the company's commercial objectives and the structure of their individual bonus scheme.

Bromley emphasizes that while the performance management system behind the AIP is complex, it is important to avoid potential for confusion. 'You need to keep away from abstract terminology so that people know what they need to deliver,' he says.

The AIP has been developed almost entirely in-house but with specialists from Cranfield Business School acting as 'academic agony aunts to help us think things through'. It's still a work in progress, and Bromley says even more needs to be done on communication, while the system will change as more staff input is analysed.

But the initiative has already been deemed a success. The cost, says Jennifer Gramolt, head of corporate responsibility, has 'not been great – more an investment in time than anything else' – and the rewards have been encouraging.

'Although we have a tiny corporate responsibility team, the Annual Incentive Plan has allowed us to create a large group of people delivering self-identified CSR targets that are not imposed upon them. Branches are coming up with their own areas of CSR priority and it is helping us to embed the subject throughout the

company.' Gramolt says senior managers have been impressed by the impact of such a simple idea within the company. 'The headline indicators are improving across the board,' she says. 'Employee satisfaction rates are up, and we've gone from 97th in the CR index to inside the top 30, so we feel it's made a difference.'

External observers are impressed too. Rob Lake, head of SRI, engagement and corporate governance at Henderson Global Investors – which has been calling on businesses to do more to link performance pay to non-financial targets – says the AIP is a progressive move.

'A few companies link individual aspects of CSR performance to pay – typically safety or the environment,' he says. 'But EDF Energy's scheme is far more comprehensive and integrated than most. It's a real step forward in embedding a more rounded approach to corporate performance that takes all the important drivers of success into account.'

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## ibe comment EDF ENERGY

EDF Energy has developed a way of firmly integrating its corporate values throughout the entire company by rewarding staff for their performance on both financial and non-financial issues. At the heart of this programme is EDF Energy's belief that embedding its values is key to sustainability and competitive advantage.

### interesting points to note include:

- performance measures are heavily weighted in favour of non-financial targets
- EDF Energy has come up with engaging ways to communicate the scheme, including public boards and the 'performance puzzle'
- the input of employees through staff opinion surveys and the bespoke nature of the performance measures, ensuring their relevance to each employee and team

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