

Put Your Money Where the Motivation Is

Compensation
Strategies to Retain
Your Best People

White Paper



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Introduction

These are complex times for HR departments in growing organizations. Unemployment rates continue to hover at the highest levels in decades; recruiters are challenged with finding specialized talent to fill open requisitions; and unemployed job seekers are relocating or considering lower-level roles to bring home a paycheck. Yet, employees who are safely situated in their jobs are more disengaged than ever before. How do you prevent your company's front door from becoming a revolving door, with your best talent headed out and no one lined up to fill the void? By getting underneath what truly motivates your employees and designing a compensation strategy that appeals to your best performers.

Motivation Mixology — One Part Art, One Part Science

No matter the economic environment, one of the most important goals of any organization is to create a workplace that's engaging and motivating, where employees want to stay, grow and contribute their knowledge, experience and expertise. Engaged employees are those who are motivated to contribute "discretionary effort" resulting in contributions sometimes far beyond what's expected. But what creates motivation and engagement, especially for your top performers, and what's at stake?

The risks of ignoring underlying factors that motivate your workforce have never been greater. The cost of replacing talent can be as high as five times the annual salary, depending on the job. But what's worse: watching a top performer walk out the door and starting a lengthy search for a suitable replacement, or allowing a working environment that merely caters to the actively disengaged employees who remain on your payroll? Businesses can't afford either scenario.

To encourage peak performance, employees need clear answers to the age-old question, "What's in it for me?" There are plenty of factors that contribute to motivation and engagement, but getting compensation right is a foundational element. In Daniel Pink's research presented in *Drive: The Surprising Truth About What Motivates Us*, he describes the starting point for any advanced thinking on motivation as "ensuring a baseline of rewards — wages, salaries, benefits and so on — that are adequate and fair. Without a healthy baseline, motivation of any sort is difficult and often impossible."¹

¹ Pink, Daniel. *Drive: The Surprising Truth About What Motivates Us*. Penguin Group, Inc. 2009.

In addition to fair pay, characteristics that directly contribute to employee engagement and motivation include:

- Work that is challenging, interesting, valued and recognized by the organization.
- Praise and recognition from the manager and the organization.
- Opportunities for celebrating success.
- Autonomy and freedom in accomplishing the work.
- The ability to make decisions.
- Authority to deliver the work in a way the employee considers best.

When it comes to effectively encouraging and rewarding a diverse team of individuals, one approach does not satisfy all, and treating everyone consistently is not necessarily treating everyone fairly. At all costs, steer clear of these “motivational landmines”:

- Failing to honor creative thinking or problem solving
- Setting unachievable goals or deadlines
- Public criticism or reprimand
- Micromanagement
- Lack of recognition

Managers are the front line of influencing employee satisfaction and engagement. The most effective managers demonstrate a sincere desire to understand the unique motivational triggers of each of their employees and then regularly tailor job characteristics and rewards to best fit individual needs.

Managers should take into account the types of rewards high performers will value in addition to merit pay. For example, an employee with children may prefer a more flexible work schedule or more paid time off instead of additional financial compensation. By communicating with employees more openly about compensation, organizations may be able to find alternative compensation methods that are more attractive to employees and cost the organization less.²

² Garr, Stacia. *The Assessing Performance Management Series: Pay for Performance*. Bersin & Associates. 2010. To purchase the report, visit <http://www.bersin.com/Practice/Detail.aspx?docid=13538&mode=search&p=Talent-Management>

Compensation — The Total Package

Finding the levers that drive higher employee motivation typically brings us to cash-based rewards, like base salary increases and bonus payments. But the most effective rewards strategies are designed in combination with other elements that make up a strategy of total rewards. Beyond compensation, there are four additional elements of total rewards, each of which includes programs, practices, elements and dimensions that collectively define an organization's strategy to attract, motivate and retain employees:³

- Benefits
- Work-life programs
- Performance and recognition
- Developmental and career opportunities

Key elements of a compensation program. Direct compensation programs can include elements of both fixed and variable pay. Fixed pay covers such things as base wages, and salary or hourly pay differentials. Variable pay can include payments such as commissions, discretionary bonuses or profit-sharing payouts. Indirect compensation, on the other hand, includes longer-term incentives such as stock options, performance shares or stock units.

Creating a pay-for-performance culture. Most organizations use some combination of direct and indirect compensation to recognize and reward performance. A pay-for-performance strategy typically includes both an organizational mind-set and a management process that rewards employees for achieving objectives aligned to the goals of the organization.

Effective pay for performance assumes that:

- The organization has identified the right goals for employees
- Those goals remain relevant throughout the year
- Employees actually work toward those goals
- Managers can adequately assess how employees have performed⁴

Pay-for-performance programs are designed so that top performers who execute at a higher level than their average-performing peers are compensated at comparatively higher levels to reflect their increased contributions. Salary increases, short-term incentives and spot bonuses are the most common forms of direct pay-for-performance compensation elements used to recognize and reward performance.

³ WorldatWork.
www.worldatwork.org

⁴ Garr, Stacia. *Creating a High-Performance Culture: Rewarding Results and Contribution*. Bersin & Associates. 2010. To purchase the report, visit <http://www.bersin.com/Practice/Detail.aspx?docid=14123&mode=search&p=Talent-Management>

⁵ Sibson Consulting. *Real Pay-for-Performance study*. 2010.

According to research conducted by Sibson Consulting, common trends emerge when looking deeper into how best-in-class organizations support a true pay-for-performance culture.⁵

Top-performing companies:

- Use a variety of pay-for-performance elements, including both direct and indirect compensation.
- Provide relatively higher pay increases to high performers than do other organizations.
- Are more effective at aligning goals by cascading budgets and key priorities through unit and department heads.
- Apply calibration techniques to ensure that only true high performers are rated and rewarded as such.

There are cautions to implementing a pay-for-performance strategy within dynamic organizations whose goals and metrics change frequently. Designing a compensation structure that lags behind organizational strategy may do more to disengage employees than motivate them and may fail to support an organization's aggressive goals. Using an automated solution that integrates performance with compensation and rewards provides organizations, managers and employees with the tools needed to remain focused on today's business objectives.

Before implementing a pay-for-performance structure, consider the "five W's" for a successful outcome:

- **Who** will be involved in the program design, manage the program, make pay decisions and ensure differentiation?
- **What** outcomes and behaviors are we rewarding, and what will be the impact of this pay strategy?
- **When** will pay cycles be determined, e.g., annually, quarterly, in alignment with calendar or fiscal year?
- **Where** will managers and employees find the needed tools to understand and utilize the process or system?
- **Why** is the organization implementing a new compensation strategy, and what's wrong with the existing process?

⁶ Garr, Stacia. *Creating a High-Performance Culture: Rewarding Results and Contribution*. Bersin & Associates. 2010. To purchase the report, visit <http://www.bersin.com/Practice/Detail.aspx?docid=14123&mode=search&p=Talent-Management>

Roughly 80 percent of organizations use pay for performance to reward employees who put forth greater effort and make a larger impact on the organization.⁶

Using analytics and calibration to ensure consistency and fairness. Failing to differentiate performance when it comes to merit or incentive pay simply reinforces a culture of entitlement. Many managers would prefer to take the approach of “all of my people are top performers or they wouldn’t be on my team.” In reality, those same employees likely know who’s producing the top results and who’s lagging behind. Spreading compensation rewards like peanut butter across a merit increase spreadsheet directly conflicts with a pay-for-performance strategy:

- Top performers may feel slighted or overlooked, or believe that extra effort is not valued.
- Middle performers may be left wondering if applying discretionary effort is worth it when it comes to rewards.
- Bottom performers will remain comfortable delivering mediocre results, with no financial motivation to change.

In the end, when significant differentiation is not applied in a pay-for-performance culture, no one wins. Your superstars may be headed for the door, while the Average Joes are headed back to the break room.

But how can organizations get it right when calibrating performance across the organization? For many organizations, relying on spreadsheets and manual compensation planning and analysis methods can have critical implications for compensation planning. Data analyses are often incomplete, plans cannot be completed in a timely fashion, inequities arise, errors abound, and companies are unable to apply a competitive compensation strategy to attain and retain top talent.⁷

The key is ensuring that rewards align with what high-performing employees value, both in terms of the reward amount and type. In particular, organizations need to truly differentiate pay, giving high performers a significantly higher financial reward than average and low performers.

Differentiated compensation is based on the widespread belief that top performers can execute between 40 and 70 percent more effectively than their peers.⁸

⁷ Harris, Stacey and Jones, Katherine. *Getting Compensation Right: The Value of Compensation Analysis and Planning Tools*. Bersin & Associates. 2011. To purchase the report, visit <http://www.bersin.com/Practice/Detail.aspx?docid=13930&mode=search&p=Human-Resources>

⁸ The McKinsey Quarterly. *The War for Talent, Part Two*. 2001. http://www.mckinseyquarterly.com/Organization/Talent/The_war_for_talent_part_two_1035

Automated compensation solutions that are fully integrated with performance management systems offer managers the tools and insight they need to make smart reward decisions. With comprehensive dashboards and robust workforce analytics, managers have access to objective, fact-based and comparative data to determine pay adjustments that reinforce a pay-for-performance culture. These systems can:

- Save managers time
- Improve compliance with compensation budgeting
- Increase efficiency during cycles of pay adjustments

Show 'Em the Money, Not the Door

Compensation management is a complex and evolving discipline, even for seasoned HR experts. Employees simply want to know how their pay aligns with the level of effort they contribute — it's their view of the employment deal. Visibility and transparency in a pay-for-performance culture is important, so avoid having any unnecessary complexity creep into your compensation design — employees will be turned off by an over-engineered and complicated program.

While a successful pay-for-performance culture starts with a well-designed program, success ultimately relies on leaders who understand how the benefits of the strategy improve employee and organizational performance, and are effectively trained in communicating aspects of the program to the individuals they oversee.

Using automated compensation technology, managers can easily share insight with employees to effectively communicate:

- How the organization's salary structure aligns with its compensation philosophy.
- The various paygrades that fit within the organization's salary structure.
- Where an individual's role fits within the range of their salary level.
- Performance results required to achieve higher levels of reward through the use of merit increase matrixes.
- Compensation rewards associated with job progression or development paths.

High-impact HR organizations are 13 percent more likely to invest in a full compensation technology system.⁹

⁹ Harris, Stacey. *The High-Impact HR Organization. Top 10 Best Practices on the Road to Excellence.* Bersin & Associates. 2011. To purchase the report, visit <http://www.bersin.com/Practice/Detail.aspx?docid=13602&mode=search&p=Human-Resources>

Even when performance-based pay increases do occur, the initial positive impact created can be surprisingly short-lived. Compensation technology allows you to keep your employee value proposition alive and visible by aggregating pay data with other elements of total rewards to create personalized, point-in-time total compensation statements.

Conclusion

These are complex times for organizations attempting to attract, motivate and engage a workforce in today's economic climate. Adopting a pay-for-performance strategy as an integral part of a total rewards model for recognizing performance allows you to appropriately recognize and reward your most valued employees.

Put your money where your motivation is by using a fully integrated suite of automated performance management solutions, like Reviewsnap's performance management, compensation and 360-degree software solutions.

About Reviewsnap

In times like these, growth is *earned* by companies that align their people behind shared goals. If you are working to get everyone on the same page, Reviewsnap is with you. More than performance management software, we offer true partnership through genuine customer service and support. And unlike those other guys who care more about shareholders than customers, we can't sleep at night unless you can. We are all together now. We are your performance management partner. We are Reviewsnap. Visit us on the Web at www.reviewsnap.com.



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6165 NW 86th St.
Johnston, IA 50131

P 800-516-5849
F 888-292-8812

reviewsnap.com