

REWARD STRATEGY AND PRACTICE

PUTTING REWARD IMPLEMENTATION IN THE BEST HANDS

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Unless you are fabulously wealthy, a central part of our decision in accepting an offer of employment will always be about what we get in return. The “deal” that most of us tend to make is to forego a considerable amount of our own personal time and interests in return for a set of meaningful rewards.

So, why is it that most organizations seem to forget this basic fact?!

Think about it: how often does a meaningful discussion happen about the rewards in your orga-

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nization that connects it directly to the impact that employees have on organization results? In many organizations, the closest this gets is an email communication or a short chat with the manager that communicates the base salary increase, incentive payment or changes in benefits programs.

So why does this matter? In most organizations, the cost of labor is one of the largest investments made by a company, but many organizations tend to behave as if managing its human capital is a more of a transactional function—something *administered* by HR, or the Compensation & Benefits department.

But if we look at compensation as an *investment* in the human capital of a firm, then not only should we be seeking a better return, but it becomes obvious that the management of that investment is one of the main responsibilities of any line manager.

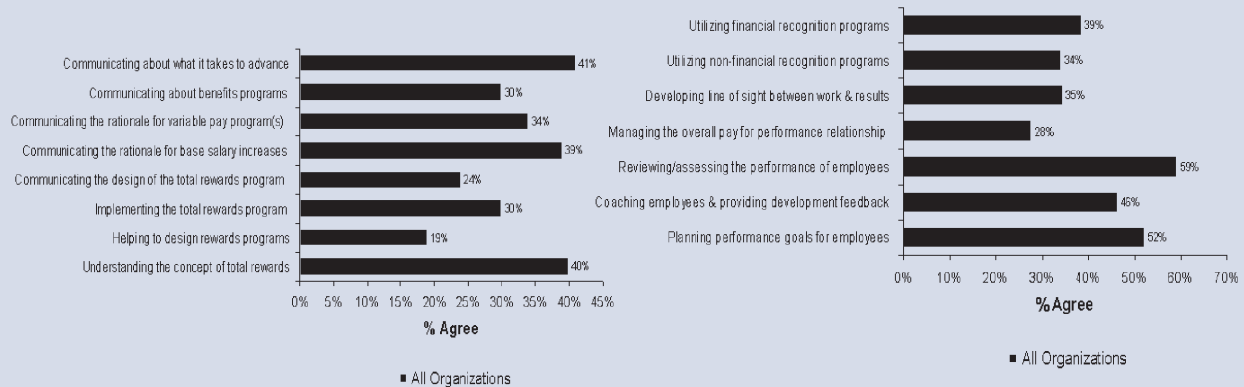
And yet, when it comes to developing and implementing reward programs, we find that the majority of organizations don’t

use line managers effectively in the process. New Hay Group research¹ finds that only 3 of 10 of organizations rate their line managers as effective in implementing their rewards programs (see Figure 1). *Worse*, a mere 28% of organizations believe their managers are effective at managing the pay for performance relationship for their employees. Note that in our study, we defined rewards as the sum total of what the employee receives from the employer. This broad definition of total rewards encompasses a broad range of compensation, benefits and intangible rewards such as recognition, inspiration, work/life balance, career development and positive work climate.

Ask yourself how many companies would build products for their market without conducting market research with their customers? Yet, generally, most organizations don’t involve managers in consultation about the “reward tools” (compensation, benefits and intangibles) that they should be using to facilitate employee motivation. So, manag-

FIGURE 1

Line Managers Effectiveness In Reward Program Implementation



Source: Hay Group (2007)

ers don't stand a chance! Is it any wonder then that most organizations believe that their managers are ineffective at communicating and implementing various aspects of the total rewards program (including base pay, variable pay, benefits and financial and non-financial recognition programs). See Figure 1.

So, if managers are poorly positioned to influence their impact on rewards programs, why is the HR function not getting the message across? Of, course, our experience with clients tells us that many HR professionals are excellent program designers and strong communicators. But, let's be clear about the distinction we are making: it is not that managers as *individuals* are failing the organization and its employees: rather it is the roles and lack of support that the organization has provided that are the issues.

Unfortunately, most organizations do not leverage the respective strengths of line managers and the human resources function in implementing and communicating their total rewards programs.

So what *should* line managers be doing?

More than being the department's "parental figure" for the organiza-

tion, line managers are often the standard bearers of the organization's values, and more often than not, are seen as primary shapers of the unit's work climate and intangible rewards programs. When asked about good organizations and managers, employees regularly describe things we might term intangible rewards. Career growth opportunities, quality of work, flexibility, recognition and work environment are very important and are the largest part of what makes employees feel rewarded by their work experience. It's often these intangible rewards that are the drivers in the company's 'employer of choice' programs and the primary vehicles in attracting and retaining talent.

The rewards that motivate people vary greatly in different environments. In emerging markets such as Southeast Asia and China, Unilever found that a critical part of the employment contract was who the employee's manager would be. It was not about status and prestige ... it was not about the bigger the job title of your boss, the more important the role would be ... it was much more about the skills that that boss had

in coaching and development. Employees were found to be very much motivated by having leaders who would help strengthen their career prospects, skills and competencies."

... And, of course, the line manager is best placed to be the key influencer on how these intangible rewards operate in relation to members of the team. According to Elisa Poe, VP of Human Resources Operations, at American Modern Insurance Group, "the organization wants the line manager doing as much of the implementation and communication of the rewards program as possible, because, as she puts it, *"they are the most trusted people from the employee's perspective."* The role of HR, she says, is to provide the tools and assistance. *"But the most effective communications in this regard comes from the manager."*

But it is not just as influencers of employee opinion that managers play a vital role in reward programs. Managers provide a clear picture of what employees want and how they will react to change. The flip side to this is that managers can "go native" and become too closely aligned

with employee, rather than organizational needs and preferences; but nevertheless this understanding is invaluable in understanding the needs of any implementation exercise and in understanding the morale costs of difficult changes.

The role of HR

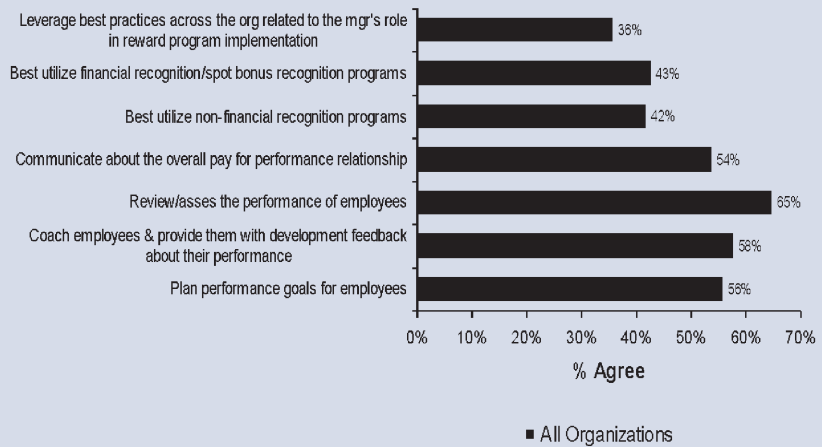
In asserting the value of managerial involvement in implementing reward programs, one must not lose sight of the vital role played by HR. While line managers are best positioned to garner intelligence and to influence employee opinion and satisfaction; that closeness of involvement is the very thing that disadvantages them in development and management of the overall aims of the program. Managers have other concerns than to be the source of reward knowledge for the organization, so clearly HR has a significant role as provider of expertise on reward, legislation and market matters.

In years of working with organizations where HR and managers are involved in developing rewards, we've seen that many managers can view rewards through the restricted window of their departmental concerns. Managers of professional service teams tend to focus on expertise and the promotion aspects of rewards; where those responsible for staff in lower level skilled work will often focus on how rewards motivate long serving staff who stay in one role, or on retention measures for core roles executing the fundamental work that may have higher regretted turnover rates.

In balancing the very different needs of line managers, HR must take the perspective and strategic position that many managers are ill placed to see.

FIGURE 2

HR Effectiveness In Reward Program Implementation



For many organizations this means equipping managers with better tools to support their interaction with employees. "We provide managers with talking points and standard presentations to give to employees," adds Carl Smith, Caterpillar's Corporate Compensation Manager. "We also provide suggestions on what to advise their employees based on their type of situation. Some managers supplement what we give them and we have others don't make it a priority. This shows up in employee opinion surveys," he notes. "Managers who make reward communications a priority usually get better results from employee opinion surveys."

So why aren't more managers involved in reward implementation?

On one level, managers can fail to understand the impact that they have on the employee's perception of rewards. If asked why their employees leave, managers will very often cite better pay elsewhere as the main reason. Yet evidence suggests that inspirational managers who better leverage the intangible elements of reward, such as developing employ-

ees, creating room for autonomy, recognizing success and improving the work climate, etc. are far more successful in retaining their talent. Yet many need better understanding of this.

When we ask managers how they feel about taking more of a leadership role in reward program implementation, the response is often as varied as it is negative. Lack of bandwidth, understanding and concerns about their capability and confidence to explain and defend changes to their employees are very real worries.

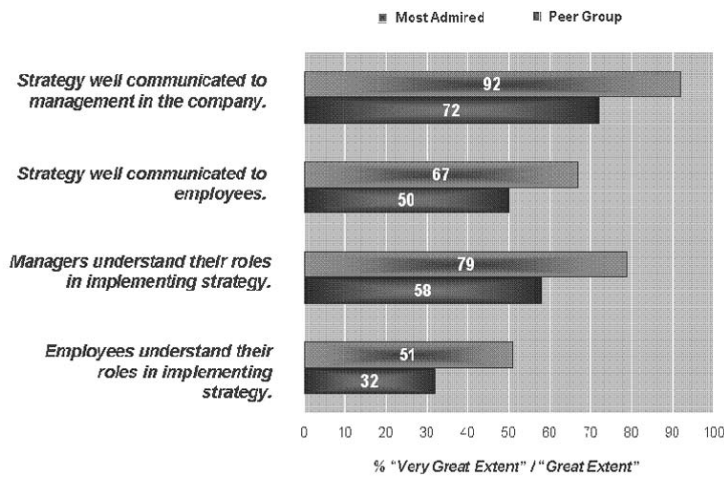
Hay Group's research shows that many managers may be justified in feeling insufficiently prepared to take on these accountabilities. Our study found that many HR functions are inadequately supporting their line managers in reward program implementation (see Figure 2).

- Only 35% of organizations say they do an effective job of education and formal training in the area of reward program implementation.
- Only 36% of companies report that HR is effective at leveraging best practices

FIGURE 3

Focus on Strategy Implementation

Clarity is driven deep into the business



Source: Hay Group (2006)

across the organization related to reward program implementation.

- HR support to line managers in utilizing non-financial and financial recognition programs is considerably lower (at 42%–43%) than support in other reward areas (e.g., base pay, variable pay, benefits, career advancement).

While providing training and tools to help managers understand rewards and to assist in communication is a relatively straightforward undertaking, discomfort in delivering news about rewards is a more complex issue for many managers. Most reward implementations often focus on how to deal with the “winners and losers,” or at least the losses and gains to individuals. For many managers, justifying the less popular aspects of change has the potential to damage the carefully crafted relationships of trust that they have built with their team members over time.

This becomes even more difficult where the changes impact unfavorably on the managers themselves, or clash with the “psychological deal” they felt the company was promising. With all of this against them, it is perhaps not surprising that companies don’t ask managers to lead implementation in this area. But, can they afford not to?

What Can we Learn from Most Admired Companies?

For the past decade, Hay Group has conducted Fortune magazine’s Most Admired Company (MAC) analysis. According to our findings, typically there are few appreciable differences in the nature of the business strategies of the MACs when compared with peer organizations. However, when we look at the ability of MACs to actually implement their strategies and achieve business results, the differences are striking. We have found pronounced differences in MAC’s ability to translate their

business strategy to end results by doing a better job clarifying their strategy, communicating their strategy and effectively engaging managers and employees to carry out their roles in execution of the strategy. See Figure 3.

Unilever links its employees’ variable pay programs through a cascade from corporate to divisional and to country level strategy interaction goals. According to Unilever’s Alan Jope, “to me, a good strategy is one that is winning and that is simple.” The strategy-linked reward system has been in effect for five years, which has successfully been received by employees who understand how it works and have absorbed it as part of our culture and the way we do things. With the emphasis off of immediate activities, managers faced a challenge helping employees stay focused. Over the past three years, Unilever has taken intricate steps to ensure, through the cascading process, that “every manager in the company as a work plan with five goals that can be traced directly up to their country level plan, their division plan and their global plan.”

This focused approach among the MACs is also reflected in the implementation of their reward programs. Most Admired Companies are far more effective than other organizations in their reward program communications as the intent and strategy of the reward program is better understood and communicated by MACs.

The emphasis on reward program communications results in a substantial difference in the level of employee understanding of the value of their reward package in MACs (see Figure 4). This is critical in organizations because

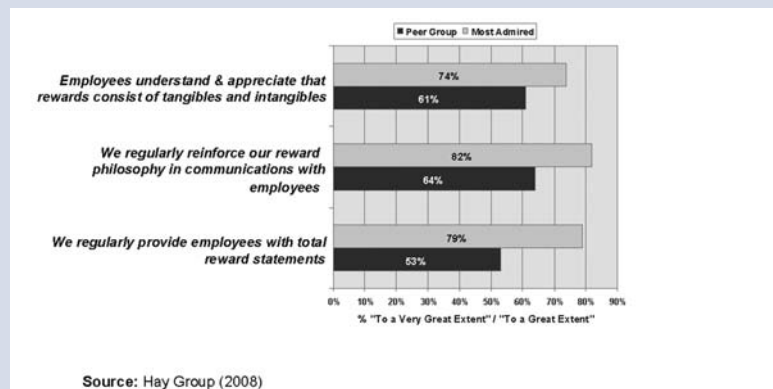
effective reward communications is the key to ensuring that the reward program is actually delivering what it was designed to do. Logically, if an organization is to invest in any aspect of its rewards, then the impact that such an investment can have will be diluted if employees do not know about any changes or new measures: *the reward program can serve as a motivator only if it is understood and accepted by employees.*

This point takes us back to the role of the HR professional in the implementation of any rewards program. One of the most vital activities is to provide relevant and accurate information and tools to support the line manager. It is not enough in modern organizations to send an email, short memo, or for managers to have a quick chat! What matters is that today's employees will ask searching questions and their managers must be fully prepared in order to respond.

This is borne out in our survey of the Fortune Most Admired Companies. MACs generally think about using different tools to build different relationships with employees. One of the key ways in which they do this is to develop different tools to assist managers in communicating their rewards messages. The Most Admired Companies are much more likely than their peers, to use total remuneration statements than other organizations (see Figure 4). Bruce Lasko implemented total remuneration statements at Avaya, (global communications hardware/software manufacturer). Commenting on the impact of this tool, he says, "surprisingly it's not the value of rewards that the differentiator. It's the communication. We've spent years

FIGURE 4

Most Admired Companies Focus on Reward Communications



spending hundreds of millions on providing benefits that employees didn't value, understand or even know existed. Regularly communicating the 'total value' ... significantly improved the effectiveness of our rewards programs."

And while these total remuneration statements aren't the only ingredient, typically organizations who use such tools commonly deploy a range of supporting initiatives.

Investing in Successful Implementation.

Since we have repeatedly found that the most effective reward programs are differentiated by effective implementation rather than design and line managers are the key to effective implementation, it is ironic that our experience shows that companies spend far *less* time and money on the implementation and communication of programs than on the design of these programs.

Organizations would be better served to focus on supporting the development of management capability in this area and understanding that there is a vital role for HR in making this happen. HR needs to help the organization's managers in taking a 'total

rewards' approach—beyond traditional compensation programs—when dealing with employees. Often it's the intangible rewards that are primary retention drivers: managers need to understand this in the way they behave.

As for the HR function, organizations need to better recognize the strategic role that the function can play in facilitating coherent design and implementation of reward programs. HR therefore must consider investing more of its discretionary effort in developing stronger and more creative pay-for-business performance linkages, building effective reward communications programs and in identifying and leveraging the best way to utilize line managers in the reward implementation process.

This is underscored by Vickie Tillman, an Executive Vice President at Standard and Poors. "Education and understanding the business is probably one of the prime things that we need to have our HR people do. A Total Reward Program for instance, in Japan, may be very different than it is for those who are sitting here in New York versus those that are sitting in San Paulo. Our HR [team] have to become much more global in

EXHIBIT 1

Top Tips for Organizations:

So what can organizations planning reward initiatives need to do to raise the probability of successfully implementing their programs?

1. Ensure the linkages between organizational strategy, job responsibilities and rewards are clearly articulated within the business by getting line managers involved in program development and asking for their insights.
2. Focus HR effort on leading and coordinating program development and ensuring fairness and that the overall organizational picture is coherent.
3. Support managers by developing their understanding and building communications tools.
4. Recognize that managers will have a core picture of acceptable reward offerings that they can confidently "sell" to employees. Moving too far from this will create implementation problems.
5. Ensure that managers are fully aware of all aspects of the "total reward" package offered by the organization.
6. Be clear that managing the reward message effectively is a core part of management responsibility.

their perspective. HR in the past has been reactive about such issues. Like many companies, Standard & Poor's prefers to have a singular program that covers everybody, but because of a variety of differences amongst our markets, HR must become much more creative in designing a program."

Make no mistake, managing reward implementation is hard work, but it's the kind of work that rewards organizations that do it well. Done well, the partnership between the HR function and line management can collectively and positively influence how employees perceive and value their total rewards programs and how they impact on business success.

NOTES

- 1 The study is comprehensive -- including 1,186 organizations in 78 countries and included HR, line management and CEO respondents.