

# The Manager's Guide To Rewards

What You Need To Know To Get The Best For – And From – Your Employees

## About the Authors

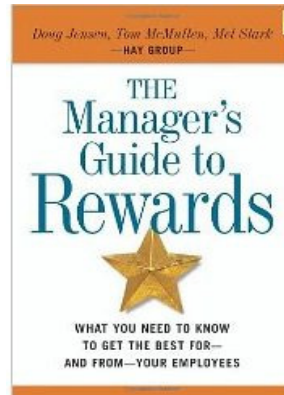
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**Authors: Doug Jensen, Tom McMullen, and Mel Stark**  
**Publisher: Amacom Books, 2007**  
**ISBN: 13 978 0 8144 0886 5**  
**240 pages**

## ■ The Big Idea

What about your organization? Does it “walk the talk” when it comes to proving to employees that they matter? Even the most well-intentioned companies fall short in their efforts to recognize and reward excellence. Sometimes the obstacle is a thicket of red tape or the burden of “the way we’ve always done it.” And of course it’s often a financial matter.

Many managers believe that compensation decisions rest with the HR department. But contrary to what you might think, your hands are not tied. As a manager, you have probably found that most books on workplace rewards are either (a) geared toward human resources and compensation professionals, or (b) primarily dedicated to nonfinancial rewards like recognition, providing advancement opportunities, and others.

Here at last is a book that line managers can use, one that outlines how to design, implement, justify, and profit from a multifaceted program that includes both quantifiable and intrinsic rewards.

## **Why You Need This Book**

This book shows that you've got more power than you may think to develop and use rewards systems that will drive excellence throughout your organization – and keep your best employees happy, motivated, and super-productive.

## **A CHECKLIST FOR ENSURING A RETURN ON INVESTMENT IN PEOPLE**

Whether or not managers actually calculate the ROIs in rewards, they can make effective decisions by thinking about the returns that will result from each rewards choice they do make. Managers can and should look at all of the rewards elements they can use as investment tools – and they should consider the likely returns whenever they make these investment decisions on employee rewards.

Managers who use all of the rewards elements available to them, and who clearly link rewards to performance, ensure that they get an appropriate ROI from their people. When determining an ROI for your organization's total rewards budget, keep the following in mind:

- Many of the most effective retention programs do not involve direct compensation – they involve intangible rewards.
- Line managers may have the most control over intangible pay elements such as work environment, development opportunities, and spot awards; what's more, employees and job candidates highly value these intangibles.
- As a manager in an organization, you cannot hope to maximize the ROI of your tangible and intangible reward programs if you don't know their total value, their effectiveness in delivering key messages, and their alignment with desired business outcomes.

- To get a well-rounded view of a program's effectiveness, measure both quantitative financial return metrics and qualitative opinion metrics.
- Establish clear performance-reward links and ensure that employees understand how their contributions connect to the bigger picture.
- Consider multiple ways of differentiating rewards, not just in the base salary increase program.
- Communicate, communicate, communicate!

## **DESIGNING A REWARDS PROGRAM**

The ultimate success of a total rewards program is the degree to which it can attract, retain and motivate employees. Said another way, the best rewards programs do the best job at rewarding the right people the right amounts for doing the right things.

While a total rewards program certainly helps create the environment in which an organization can be successful, it's up to individual managers to use the program to get results. Leaders committed to the organization's success create a rewarding and engaging work experience for their people. This is the most important determinant of whether employees stay and whether they make a maximum effort to achieve company success.

To take full advantage of your organization's rewards structure, as a manager you need to:

- Know the business of your business. How does work get done and how does the company create economic value?
- Know who the high performers are and why?
- Recognize your company's predominant culture and understand its attributes.
- Consider what reward elements work best, in what combination, with what degree of emphasis, and how best delivered.

## **PERFORMANCE MEASURES THAT MOTIVATE**

Whether you manage steel production, a sales organization, a restaurant or a creative department, you'll find that leading is like coaching. If you were the coach of a sports team, you wouldn't merely assign the players to positions and develop a playbook.

You'd work with your team to ensure it has the skills to win. You would drill, you would practice, and you would keep them focused. You don't go away during the season, come back at the end to find out how everyone did, and hand out awards to the best players. The same is true for managers.

Set SMART goals, manage for performance improvement, and use compensation to focus your players and encourage their development. For your performance measures to motivate, you must do the following:

- Choose the right measures by using both top-down and bottom-up analyses of the work that needs to be done.
- Ensure that the measures you choose align with the organization's goals, offer individual control, and support the organization's values.
- Set appropriate targets that motivate employees.
- Select appropriate rewards vehicles that drive performance and recognize achievement.

## **GETTING EMPLOYEE COMMITMENT WITH TOTAL REWARDS**

To build a total rewards program for your organization, use the following checklist as a guide. Knowing what levers are available to you and being on the lookout for opportunities, you can reward and manage your staff effectively:

- Know your organization's pay philosophy, its reward program, and how the various reward elements operate.

- Identify employee attributes that the company encourages, supports, and rewards; these could constitute the organization's culture.
- Understand your company's leadership and people approach – whether it's top-down or inclusive, whether it's focused on managing functions/individuals or teams/units.
- Be aware of how you lead others and the impact you have on your staff, its development, and the work environment.
- Look for opportunities for staff development, whether they're onetime work assignments, new positions, or new responsibilities.
- Be sensitive to staff members' needs and flexible in how you engage them.
- Recognize staff for some of the everyday things that often go unnoticed and, when necessary, provide feedback and coaching on how individuals can do things better.

## **MANAGING BASE SALARIES**

Every paycheck is an opportunity for managers to reinforce key messages about the organization's strategies and decisions. When managing base salaries:

- Take the time to learn the mechanics of your organization's base pay program, and how much latitude you have within the system.
- Cluster the job grades to help employees understand categories.
- If your organization is below average in base salaries relative to market and you aren't in a position to change that, be prepared to discuss benefits and other aspects of total rewards to show employees a complete picture of their true value to the organization.
- Try to hire employees below the target market for the job; this helps preserve internal equity (fairness) in the department while giving new hires the opportunity to earn merit increases.

- If you add a differential to accommodate an employee in a region with a higher cost of living or a desperately needed individual with a hot skill, keep the differential as a line item so you can pull it out of the budget when the situation changes.

## A CHECKLIST FOR BENEFITS

Ideally, every benefit – from dry-cleaning services and family day care to company-sponsored retirement plans and health-care benefits – should reflect the organization's benefits philosophy and be driven by its business strategy. Benefits should be thought out, not simply handed out.

Based on our research and experience, we believe the best way to evaluate and maintain a successful benefits and total remuneration philosophy is to:

- **Analyze it:** Understand its clear and integrated philosophy, where it comes from, whom it serves, and why it was formulated.
- **Quantify it:** Know how it meets employee and organization needs and what its limitations are.
- **Compare it:** Know where it stands relative to other organizations with similar business models, cultures, and employee demographics.
- **Communicate it:** Do this clearly and often.
- **Monitor it:** Do this on an ongoing basis, because changes in industry, tax law, and other regulations may affect it.

## **MANAGING PERFORMANCE**

The task of managing performance can be daunting, but with proper focus and execution, it can provide the organization with great benefits: benefits that the market recognizes.

Approximately 35 percent of an institutional investor's valuation of a company is attributable to nonfinancial information that gauges the ability of management to deliver results, including things such as strategy execution, management credibility, and management expertise.

Having a stronger performance management system, and effectively managing performance, clearly fall in this category.

How does a manager reap these benefits? The following checklist provides a start:

- Know how to translate organizational “must-wins” into departmental “must-wins.”
- Make sure employees know what they need to do, day to day, for the organization to succeed.
- Provide ongoing feedback and constructive criticism – no surprises at year-end review!
- Consider the challenges of reviewing and assessing, and prepare yourself for the painful, difficult discussions.
- Reinforce that the middle is a valued place to be.

## MANAGING CAREER PATHS

Keep the following items in mind when you think about your career paths and which jobs to put your people in – that is, aligning employee skills with the nature of roles:

- Understand the levels of work and the nature of roles; know the “architecture of jobs.”
- Remember the different competencies for different management roles; people who are highly adept at advisory roles may not be so successful at delivery roles.
- Bear in mind that development means more than moving people into different jobs; it's helping them acquire skills and know-how that the organization values.
- Consider that a new assignment is only rewarding when the individual possesses the threshold competencies to be effective, in addition to the potential to develop the competencies required to be outstanding.

## REWARD COMMUNICATIONS

When explaining a new compensation plan or changes to your current plan:

- **Manage expectations:** Early and clear communications can offset employee fears and stifle grapevine rumors.
- **Engage line managers in communications:** Studies show that employees trust their direct managers more than anyone else in the organization.
- **Train line managers:** They'll need to know more than PowerPoint factoids; instead, give them talking points and discussion protocols so they can speak with employees one-on-one, if needed.



- **Identify your target audiences:** Different audiences need different kinds of communications.
- **Overreach rather than underreach:** It's better for employees to learn about a compensation change through e-mail, snail mail, a small group meeting, and a bulletin board posting rather than not learn about it at all.

## RECOGNITION

Often thought of as a subset of communications, recognition can become a powerful part of your rewards program. Roy Saunderson, president of the Recognition Management Institute, sums up the impact of recognition programs this way:

"I can't sit here and say that the recognition programs by themselves contribute to the bottom line, but there is considerable research that shows that a philosophy of putting people first, creating a creative culture, caring for people and listening to people does have a direct measurable effect on the bottom line."

To be effective, recognition should:

- Align to organizational objectives and reflect the company's mission, vision, and values.
- Be an integrated part of the rewards program.

Provide managers with an opportunity to identify desired behaviors and deeds that make the organization a success.

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