



Expanded Article - Reward & Recognition

Reward & Recognition - What's Happening Out There?

Article contributed by Andy Mackie

Reward and recognition means 'Pay' to most people. So what are other companies doing about pay, and what else do we need to consider if we want a realistic pay model to work?

Any pay model needs to be as simple, straightforward and open as possible. Many models fail to work properly because staff and managers cannot understand them or how to operate them properly, or because staff do not believe they are fair. People need to be able to calculate their earnings, or at least understand how they have been calculated. This helps both managers and staff to believe in the system, and engenders commitment. In support of the process, managers need skills training to be able to work pay systems easily and consistently

Performance Related Pay schemes remain popular. In the UK, about 80% of organisations use pay models which are linked in some way to output measures, for example, goals, targets and objectives. A smaller but growing number have input based systems linked to generic, discipline or job-family specific and individual behaviours or competencies. These input based systems support the increasing tendency to link pay to the abilities of the individual. Again, a smaller but growing number of organisations try to combine the two approaches, with pay systems delivering performance related salary increases or bonuses on the basis of not only what the individual has done, but also on how they have achieved their targets.

Such hybrid competency based systems fit well with organisations having an overall philosophy of continuous improvement, and broad banding is often a feature of this type of pay model. However, the success of these systems rests on several factors - that the correct competencies have been identified, that they will be identified by the chosen assessment/appraisal process, and crucially, that the assessors have the skills, ability and training to make accurate and objective judgements

A number of studies have stressed the importance of integrating pay models with other HR processes, and ensuring a link to overall business strategy. Having a clear view of how the organisation's business strategy provides direction for the structure, roles, performance and behaviours needed in order to deliver that strategy is seen as a prerequisite to the design of reward and other HR processes. This concept of line of sight, or vertical integration, should also be supported by horizontal integration across the HR function, i.e. ensuring that HR processes are developed and linked to work in harmony, rather than designed in isolation from each other.

Recent research across Europe and the US has shown that despite today's cost pressures, the top HR priority is to still to attract and retain key talent. Organisations are therefore becoming more strategic in their approach to reward models, applying such tactics as segmenting the workforce by function, level or location, designing different but complementary reward systems for these groups, and introducing more variable pay into the total reward mix.

Most organisations have relatively small performance pay budgets - in the UK, overall merit budgets were 3.2% for 2003, down from 3.6% in 2002, and little changed for 2004 and 2005. The question therefore arises as to whether schemes that pay small amounts in terms of PRP - salary increment and/or bonus - really motivate employees. The most successful companies focus on getting the right rewards to the right people, and are more targeted in their use of variable pay programmes such as short-term incentives and spot bonuses. This calls for significant differentiation in variable pay to award material payments to high achievers. An important message here is 'Don't wait for final/annual results to reward and/or recognise' - on the spot recognition gives a big bang for the buck. Again, successful companies tend to be more creative in their use of spot recognition systems, shying away from cash awards unless the need is to recognise the most significant events.

Lump sum payments have greater impact & visibility than merit increments, and can therefore be effective without building in upward salary drift. A growing number of companies are re-examining the balance between base salary and variable pay, and where a shift towards a greater emphasis on variable pay is proposed, a clear communication process supported by total compensation statements can help to defuse negative reaction.

Given that there is a shift of PRP emphasis from base to variable, there is a need to link appraisal and rating more closely to development opportunities to improve performance. Expectations around the concept of vertical progression need to be managed, and development is a key vehicle for enhancing the skills profile of the organisation that has a strong link to improved individual and collective performance.

So it's not just pay - recognition, development and performance management are all inextricably linked to pay, and it's vital to get these areas right in order to support a realistic pay model. Future Link articles will deal with these other areas, to help you to develop a comprehensive HR model to attract, reward and retain the best employees for your organisation.

Copyright Andy Mackie and Link Management Group 2006

This file has been downloaded from www.linkmanagementgroup.com

Contact us at info@linkmanagementgroup.com

© Link Management Group and the author