The Changing Face of Reward Programs

Global research on the current and future state of reward programs

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Tom McMullen
Key research questions

Two global research initiatives spanning 2009-10 covering the following topics:

- How are reward programs adapting to the changing business environment?
- How are reward strategy and design change being impacted now and in the future?
- How are implementation and communication of rewards being impacted?

Focus on measuring both current emphasis and incremental future focus
Participating countries: 1000 organizations, 66 countries, 6 continents

Argentina
Australia
Austria
Azerbaijan
Barbados
Belgium
Botswana
Canada
Chile
China
Denmark
Egypt
Finland
France
Germany
Greece
Hong Kong

Hungary
India
Indonesia
Iran
Ireland
Israel
Italy
Japan
Kenya
Kuwait
Latvia
Lebanon
Lichtenstein
Malawi
Malaysia
Mexico
Netherlands

New Zealand
Nigeria
Pakistan
Palestine
Peru
Philippines
Poland
Portugal
Puerto Rico
Qatar
Romania
Russia
Saudi Arabia
Scotland
Serbia
Singapore
Slovakia

South Africa
Spain
Sudan
Sweden
Switzerland
Thailand
Trinidad and Tobago
Tunisia
Turkey
Ukraine
United Arab Emirates
United Kingdom
United States
Venezuela
Vietnam
Representative global participants
The new business imperative: do more with less

- Change
- Cost
- Performance
- Risk
Issues with reward practices today

Strategy and design

- Extreme focus on benchmarking for many
- Reward components managed in isolation of each other
- Lack of robust reward strategies
- Little input with employees on reward strategy and design
- Boards and CEOs concerned with risk and compliance

Implementation

- Performance management processes often poor
- The value of total rewards is not understood by employees
- Line managers are sub-optimized in reward implementation
- Little done in terms of reward ROI assessment
Macro trend

- More holistic management of reward programs that are better aligned with business strategy, talent management strategy and organization performance
The future focus

1. Managing the cost base
2. Alignment
3. Pay for performance
4. Pay differentiation
5. Total rewards
6. Implementation/communication
Do these themes resonate? What is the core focus area in your rewards program for the next year?
Reward strategy
### Headlines

<table>
<thead>
<tr>
<th>FROM</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inconsistent strategy and design</td>
<td>Consistent strategy and design</td>
</tr>
<tr>
<td>Financial / short term measures</td>
<td>Balance in measures and time frames</td>
</tr>
<tr>
<td>Siloed reward element orientation</td>
<td>Total remuneration/rewards orientation</td>
</tr>
<tr>
<td>Cost orientation of reward</td>
<td>ROI orientation of reward</td>
</tr>
</tbody>
</table>
Core reward strategy objectives

Increased emphasis on motivational value or reward programs

- Is externally competitive: 68% current focus, 50% greater focus in future
- Is internally fair: 73% current focus, 44% greater focus in future
- Is motivational: 48% current focus, 64% greater focus in future
- Rewards at a reasonable cost: 76% current focus, 53% greater focus in future

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## Balanced performance

### Metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>% Current Focus</th>
<th>% Greater Focus in Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>71%</td>
<td>50%</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>41%</td>
<td>44%</td>
</tr>
<tr>
<td>Human capital development</td>
<td>29%</td>
<td>48%</td>
</tr>
<tr>
<td>A culture of innovation</td>
<td>25%</td>
<td>44%</td>
</tr>
<tr>
<td>Employee engagement</td>
<td>40%</td>
<td>57%</td>
</tr>
</tbody>
</table>

### Timeframes

<table>
<thead>
<tr>
<th>Objective</th>
<th>% Current Focus</th>
<th>% Greater Focus in Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieving short term objectives</td>
<td>78%</td>
<td>39%</td>
</tr>
<tr>
<td>Achieving long term objectives</td>
<td>31%</td>
<td>50%</td>
</tr>
</tbody>
</table>
Consistency

“We re-focused our business strategies... various countries were getting less consistent and we wanted to ensure focus on the key strategies and goals. We discovered that we had many different variable pay programs... now we have a revised variable pay structure that will be consistent worldwide.”

BMW Manufacturing, US

“There will be a greater focus on achieving global consistency on our reward programs and greater focus on governance.”

Scotiabank

Some of our reward programs are different around the world. We will try to harmonize where it makes sense, while respecting local/business differences in strategy and implementation.”

Sara Lee

Reward ROI

“We want to allow for more differentiation in our reward program designs to meet different needs and/or objectives of our business and employees.”

Whirlpool Europe

“There is more focus on ROI analysis relative to reward and recognition programs. We don’t view this as a one-time process; it has to be ongoing and sustained. We look at trends within business groups as well across the organization.”

Coca Cola Bottling, US

“We will have much more focus on measuring and proving our reward return on investment and how the total employee value proposition can be enhanced with targeted investment.”

Large industrial organization
Is pay a cost or an investment?

Our organization regularly measures the return on its total reward investment.

Why do we care?

- If pay is a cost, the obvious goal is to minimize it.
- If pay is an investment, the obvious goal is to optimize it.

So, organizations, managers and the HR function are likely to behave quite differently depending on their view.
If pay is viewed as a cost…

Organizations focus on

- Matching what others do
- Responding to inflation, recruiting and retention issues
- Calculating how much they can afford

Many organizations follow the herd in how they determine what to pay people

<table>
<thead>
<tr>
<th>Determinants of base salary budget</th>
<th>Prevalence</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>What other firms do</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Organization ability to pay</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Desired competitive labor market position</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Organizations performance</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Employee turnover</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Employee morale/satisfaction</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: Hay Group, WorldatWork, Loyola University Chicago Research (2005)
If pay is viewed as an investment...

Organizations focus on

- Reward strategy that supports its business strategy
- Reward programs that align employees’ interests with the organization’s interests
- Reward programs that align with and reinforce other management processes
- Communicating to employees the link between pay and performance
- Effectively leveraging senior leaders and managers in program implementation

To maintain and enhance reward ROI, you need to consider…
Question

What are you doing in terms of assessing reward ROI?
Reward design
<table>
<thead>
<tr>
<th>FROM</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base pay program management</td>
<td>Variable pay program management</td>
</tr>
<tr>
<td>Focus on tangible rewards</td>
<td>Career development, culture, recognition</td>
</tr>
<tr>
<td>Primarily management perspective</td>
<td>Management AND employee perspectives</td>
</tr>
</tbody>
</table>
Much stronger emphasis on variable pay

<table>
<thead>
<tr>
<th>Program Type</th>
<th>% Current Focus</th>
<th>% Greater Focus in Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base cash/wage programs</td>
<td>72%</td>
<td>38%</td>
</tr>
<tr>
<td>Short term variable pay programs</td>
<td>63%</td>
<td>55%</td>
</tr>
<tr>
<td>Long term variable pay programs</td>
<td>42%</td>
<td>47%</td>
</tr>
<tr>
<td>Financial recognition programs</td>
<td>35%</td>
<td>36%</td>
</tr>
</tbody>
</table>
And on performance management processes

- Market pricing processes: 61% current focus, 42% greater focus in future
- Job leveling/grading processes: 58% current focus, 49% greater focus in future
- Performance management processes: 55% current focus, 67% greater focus in future

Line managers effectively manage the overall pay-for-performance relationship for employees.
A new view on performance

The 'right' performance

Corporate  Financial  Short term

Individual  Non-financial  Long term

Human Capital  Customer  Social Responsibility  Operational
Five focus areas in pay-for-performance

1. Multiple and differentiated rewards (tangible and intangible), increasingly channeled to top performers and high potentials in key roles

2. Building line management skills in setting goals, coaching performance and recognizing and rewarding performance

3. Clarifying what performance really means

4. Balancing individual, team and enterprise targets for variable pay

5. Aligning, communicating and reinforcing individual goals and targets to overall strategy
Have you changed your pay for performance programs?

Why? How?
## Suite of intangible rewards

### ...especially in a continued slow/down economy

<table>
<thead>
<tr>
<th>Reward Category</th>
<th>% Current Focus</th>
<th>% Greater Focus in Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and training programs</td>
<td>54%</td>
<td>50%</td>
</tr>
<tr>
<td>Career/development opportunities</td>
<td>48%</td>
<td>60%</td>
</tr>
<tr>
<td>Flexible work arrangements</td>
<td>48%</td>
<td>40%</td>
</tr>
<tr>
<td>Non-financial recognition</td>
<td>40%</td>
<td>52%</td>
</tr>
<tr>
<td>Work climate/culture</td>
<td>57%</td>
<td>53%</td>
</tr>
<tr>
<td>Work/life balance</td>
<td>48%</td>
<td>44%</td>
</tr>
</tbody>
</table>

*尤其是在一个持续的缓慢/衰退经济中*
Engagement and enablement are key to effectiveness

Drivers

- Performance management
- Authority & empowerment
- Resources
- Training
- Collaboration
- Work, structure & process

Employee engagement

- Commitment
- Discretionary effort

Employee enablement

- Optimized roles
- Supportive environment

EMPLOYEE EFFECTIVENESS

- Productivity
- Financial performance
- Attraction and retention of talent
- Customer loyalty
- Innovation
- Enhanced corporate reputation
Employee involvement

“We do employee surveys every two years and make action plans based upon the survey results. One key finding is that we need to do a better job at communicating the total value of reward to our employees.”

— Heineken

“The real power is when you actually start talking with your employees. We design our reward programs, invest in new programs, and beef up current programs based upon the feedback we receive from our employees.”

— McDonalds
Reward implementation
Headlines

FROM

| Reward program design | Consistent treatment in pay | HR-led implementation | Ad-hoc reward communications |

TO

| Reward program implementation | Performance-based differentiation | Line manager-led implementation | Sustained senior leader messaging |
Improving ROI via greater differentiation in pay

Difference in pay increases for TOP performers vs. average (all companies)

But Most Admired Companies find a way (companies with a 2x differential)

Source: Hay Group, Loyola University Chicago, WorldatWork

"The A’s (the top 20%) should be getting raises that are two-to-three times the size given to the B’s. B’s should get solid increases recognizing their contributions every year. C’s (the bottom 10%) must get nothing."

Jack Welch, former Chairman & CEO, GE
Putting the organization’s mouth where its money is

- Employees appreciate that reward program consists of total rewards: 35% current focus, 63% greater focus.
- Leaders regularly sustain reward and performance communications: 33% current focus, 64% greater focus.
- Employees are provided with individualized total reward statements: 35% current focus, 48% greater focus.
- Managers effectively communicate total rewards to employees: 15% current focus, 67% greater focus.

80% 60% 40% 20% 0% 20% 40% 60% 80%
% current focus % greater focus in future
Communications and Role of Line Manager

“One of our key priorities is to provide increased manager training on understanding and communicating reward programs and reward program results.”
Sun Life Financial

“The success of the reward policy is due to the person closest to the employee – the line manager. Their buy-in is critical.”
Benetton, India

“You can never do enough communication about pay. Ideally, this should be a straight conversation between the manager and the employee.”
Philips, Netherlands

“We work hard to communicate total rewards. This is a big emphasis for us. We tie total rewards into all communications.”
Dow Chemical

“We are emphasizing managerial behaviors and clarity in communications as these drive employee engagement.”
Toyota Hellas, Greece

“We do a lot of things that frankly our people take for granted – we need to better promote total rewards, which includes intangibles such as a great place to work and career development opportunities.”
Novartis, Greece

“Our total rewards communications will be improved only by senior and line management involvement in shaping, delivering and sustaining messages.”
Xerox Magyarorszag
The downturn has been a change accelerator for clarifying and communicating business performance and reward matters. This includes:

1. Communication of performance strategy, drivers and linkage to rewards
2. Communicating the total value of the employee’s reward package (e.g., total reward statements)
3. Communicating the organization’s non-financial reward portfolio and its link to the employer value proposition
4. Providing information and tools to line managers leveraging existing technology (e.g., portals)
5. Developing abilities of line managers to communicate and sustain performance and reward messages
What is your organization doing regarding reward communications?
Impact on the reward professional
The future focus

1. Managing the cost base
2. Aligned reward strategy
3. Pay for performance
4. Pay differentiation
5. Total rewards
6. Implementation/communication
## Changing capabilities of reward professionals

<table>
<thead>
<tr>
<th><strong>Business acumen</strong></th>
<th>Awareness of business issues and opportunities and how they impact organization performance, human capital and reward programs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consulting</strong></td>
<td>Achieving results via influence and persuasion vs. formal organization authority</td>
</tr>
<tr>
<td><strong>Total rewards</strong></td>
<td>Better understanding employee needs and optimizing reward mix and leveraging motivational value of the suite of intangible rewards</td>
</tr>
<tr>
<td><strong>HR Marketing</strong></td>
<td>Increased use of marketing techniques in creating, deploying and sustain reward and performance “brand equity”</td>
</tr>
</tbody>
</table>
What will need to change to accomplish this significant future agenda?
Hay Group consults with 9,000 clients worldwide in a wide variety of areas, including:

- Organizational effectiveness
- Managerial and executive assessment
- Compensation and benefits
- Performance management
- Executive remuneration and corporate governance

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