Effective Rewards Strategies For A Turbulent Environment

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Critical Skill Shortages?

So why would anyone want to work for you?

- Your employer brand?
- Your value proposition?
- Your culture?
- **How do you measure and reward contributions?**

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Your Brand?

Which Mission Motivates?

Every employer has a brand

- Vision and mission
- Culture
- Value proposition
  - Meaningful work
  - Career opportunity
  - Conditions of work
  - Monetary/Psychic Rewards
  - Benefits/ Employment security

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Your Value Proposition

Will It attract and retain the talent You need?

- Who do you compete with for talent?
- Competitors different for different talent?
- On what basis do you compete?
  - Value proposition
    - Mix of elements
    - Competitive posture (Same? More? Less?)
    - Same for everyone? Based on type of talent?

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Total Compensation Strategy

- Designed to fit culture, internal and external realities, organization's strategy, and HR strategy
- Designed to attract, retain and motivate high performers in critical roles
- Realistic given organization's economic situation, how people intensive cost structure is and perception of employer in market

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Total Compensation Strategy

- Basic economic model: supply and demand will interact to provide a "price" for a set of knowledge, skills and abilities
- Organizations must respect the pay levels set by the marketplace to be competitive
- Organizations must administer pay in a manner that employees view as equitable
- Compensation must be delivered in a manner that is deemed appropriate

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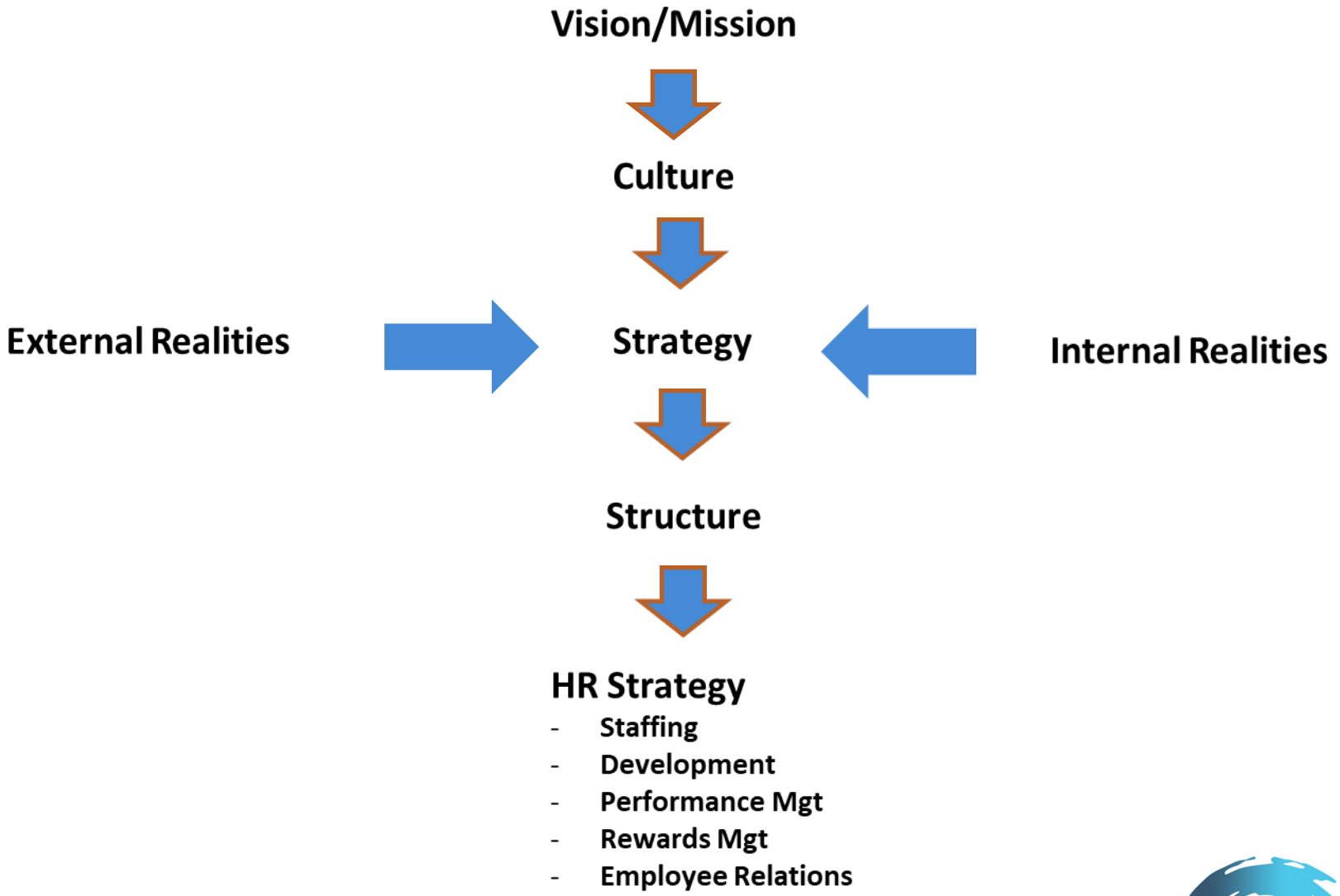
HR Strategy:

Fit To Organizational Context



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HR Strategy: The Issues

Questions		Answers
• What do we want to be?	→	Vision
• What do we want to do?	→	Mission
• What are we good at?	→	Core Competencies
• What is the context within which we work?	→	Environment Organizational Realities Culture

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Stakeholder Views

- Executive management
- Boards/oversight entities
- Managers/supervisors
- Employees
- Candidates for employment/contractors
- Unions
- Regulatory agencies
- Public

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Managing Performance

This is a process for appraising and assigning value to job-related performance

<u>NOT</u> for evaluating an individual's personal worth.

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Impact of Rewards on Motivation

Motivation/ Hygiene Theory

Good Hygiene & Poor Motivation

Example: Professional employee who has been in the same role for many years.

- Well paid and great benefits.
- Finds work repetitive and tedious.
- Will not go extra mile. Not motivated to improve.

Poor Hygiene & Good Motivation

Example: K-12 Teacher in Public School System

- Idealistic feelings of helping students learn and grow.
- High workload/demands and lack of pay differentiation with peers take their toll.
- Employee ends up performing poorly or leaving.

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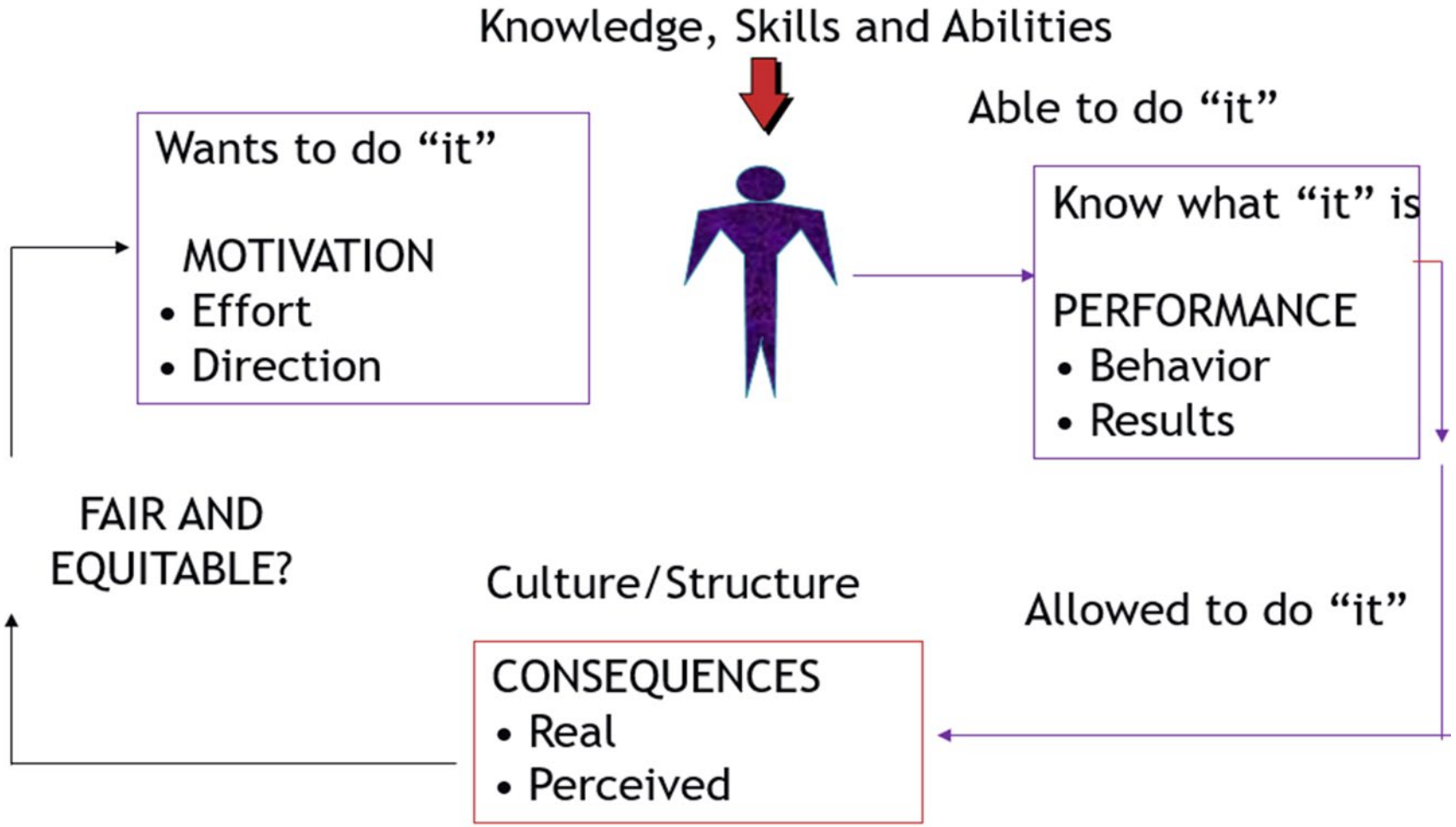
Maximizing Motivation

Motivation/ Hygiene Theory



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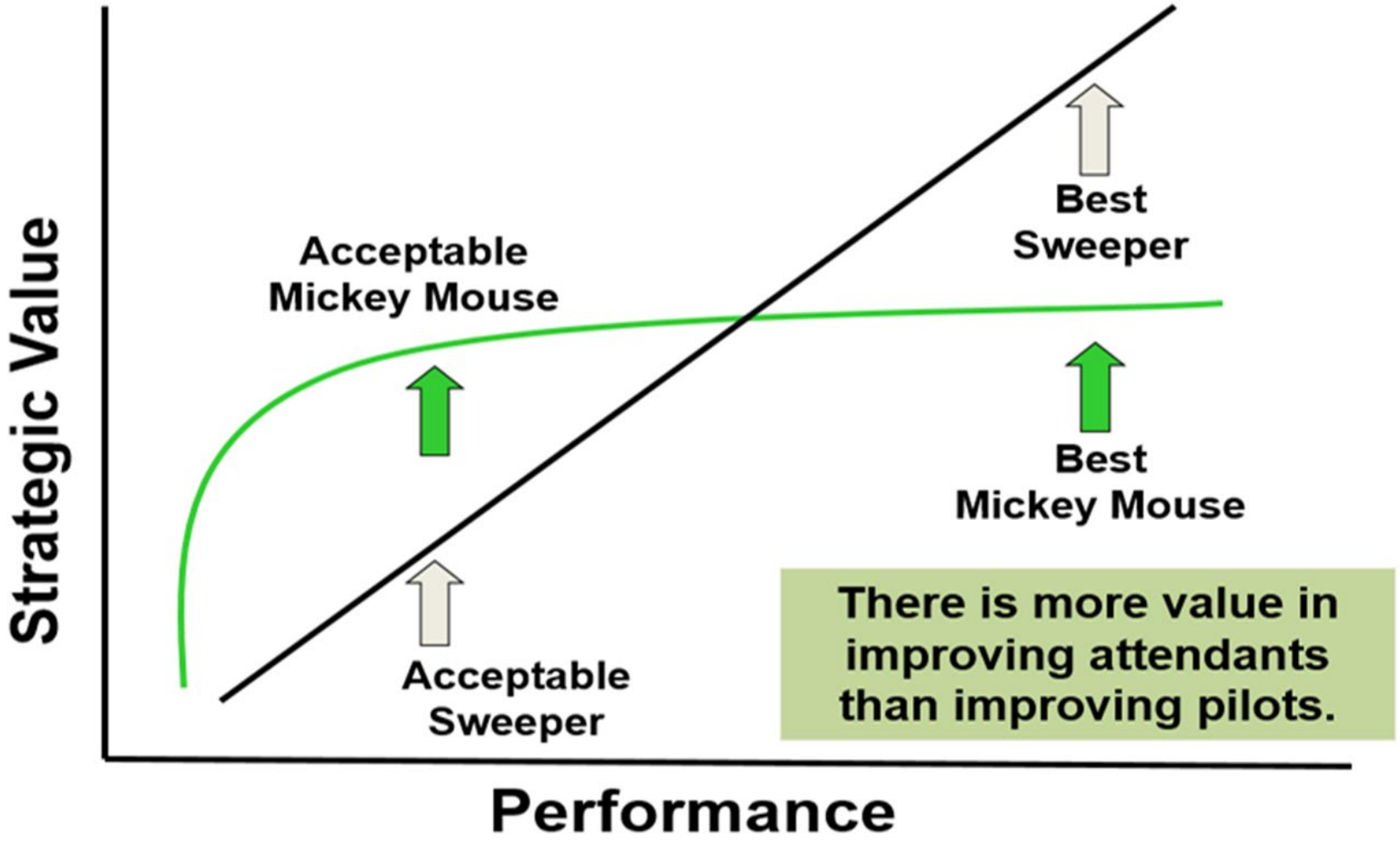
How Valuable is Performance Variation?



Source: "Beyond HR" by J. Boudreau & P. Ramstad

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Different Employee Types

Different Reward Strategies?

- Executives
- Professionals
- Support staff
- Specific occupations
- Teams
- Bargaining Unit

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Pay Equity

Pay rates should be based on:

- Value (internal and external) of role
- Competence in the role
- Contributions in the role

Pay rates should not be based on:

- Personal characteristics

Your challenge:

- **Change "should" and "should not "to "are" and "are not"… and then show you mean it!**

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Meaningful Analytics:

Scenario

- Ex-employee posts on Glassdoor accusing your organization of discriminating in favor of males when pay is administered
- The CEO has asked you to investigate the claim and to prepare a summary of your findings
- The overall company-wide data shows there are significant differences in the average pay for different employee classes based on gender
- **How do you proceed?**

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Basis For Measuring Pay Equity:

Correct Level Of Analysis Is Critical

- Males paid 15% more than females on average
  - Control for Occupation
- Male Engineers paid 10% more than Female Engineers
  - Seniority
  - Merit or Quality of Performance
  - Quality or quantity of production (incentives)
  - Factor other than gender (job related)
    - Additional education or training
    - More experience in industry
- Fully competent male Senior Engineers performing satisfactorily paid 2% more than full competent female Senior Engineers performing satisfactorily
- What is your response to management?

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Equity & Appeal

Other Rewards

- Recognition
- Conditions of work (when; where)
- Meaningful work/autonomy
- Personal development
- Career opportunities
- Benefits?

Administering Step Increase Systems

Automatic time-based step increases

- Reward longevity
- Do not consider competence or performance

Variable step increments tied to performance

- No step for "does not fully meet standards"
- One step for "fully meets standards"
- Two steps for "significantly exceeds"

Step increments plus cash awards

- Cash awards limited to "exemplary" performer
- One step + one step equivalent in cash

Improve Allocation Of Budget

Base Pay Increases

Based On Performance & Pay Rate: 3% Budget

Position In Range → / Performance Rating ↓	Lower Third (Developing)	Middle Third (Market)	Upper Third (Premium)
Significantly Exceeds Standards (25-30%)	6%	5%	4%
Fully Meets Standards (60%)	3%	2.5%	2%
Does Not Fully Meet Standards (<10%)	To range minimum	0%	0%

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Alternative:

Adopt A *Total Direct Compensation* Strategy

Replace portion of base pay increases with performance-based cash awards:

- Reduces fixed cost compounding
- Provides better linkage with current performance
- Split budget for pay adjustments into base pay increases and cash awards
- Base pay tied more closely with competence; cash awards to contribution

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Base Increase + Cash Award

Have 3% Total Budget

Cut Merit Budget To 2% & Allocate 1% To Cash Awards

Position In Range → / Performance Rating ↓	Lower Third (Developing)	Middle Third (Market)	Upper Third (Premium)
Outstanding (10%)	5% bpi +5% cash	3.5% bpi +5% cash	2% bpi +5% cash
Significantly Exceeds (20%)	4% bpi + 2.5% cash	2.5% bpi + 2.5% cash	1% bpi + 2.5% cash
Fully Meets (65%)	3% bpi	1.5% bpi	None
Does Not Fully Meet (5%)	None	None	None

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PFP Requires A Sound Performance Management System

- Measures the right things
- Expectations made clear **continuously**
- **Continuous** measurement & feedback
- All parties trained
- Ratings viewed as accurate & equitable
- Appropriate appeal process
- Performance linked to pay actions

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Which Rewards Approach Fits You?

- Depends on the budget
- Depends on how current pay ranges compare to market ranges
- Depends on current pay rate distribution
- Depends on culture of organization
- Depends on how capable managers are
- **Depends on how sound your performance management system is**

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Coping With Variations In Inflation Rates

What is the best strategy with a 3% budget & 6% inflation?

- Option 1: raise pay rates by 3%
- Option 2: raise pay rates by 6%
- Option 3: raise pay rates by 3% and grant one-time 2-3% cash award (or same $ amount)

- **Which *did* you select?**
- **Which *should* you select?**

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What Concept Aligns with Your Culture?

Consumer Price Index (CPI)

Measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Employment Cost Index (ECI)

Measures the change in the hourly labor cost to employers over time. The ECI uses a fixed "basket" of labor to produce a pure cost change, free from the effects of workers moving between occupations and industries and includes both the cost of wages and salaries (no benefits).

Should your employee compensation be administered based on *cost of labor, OR cost of living?*

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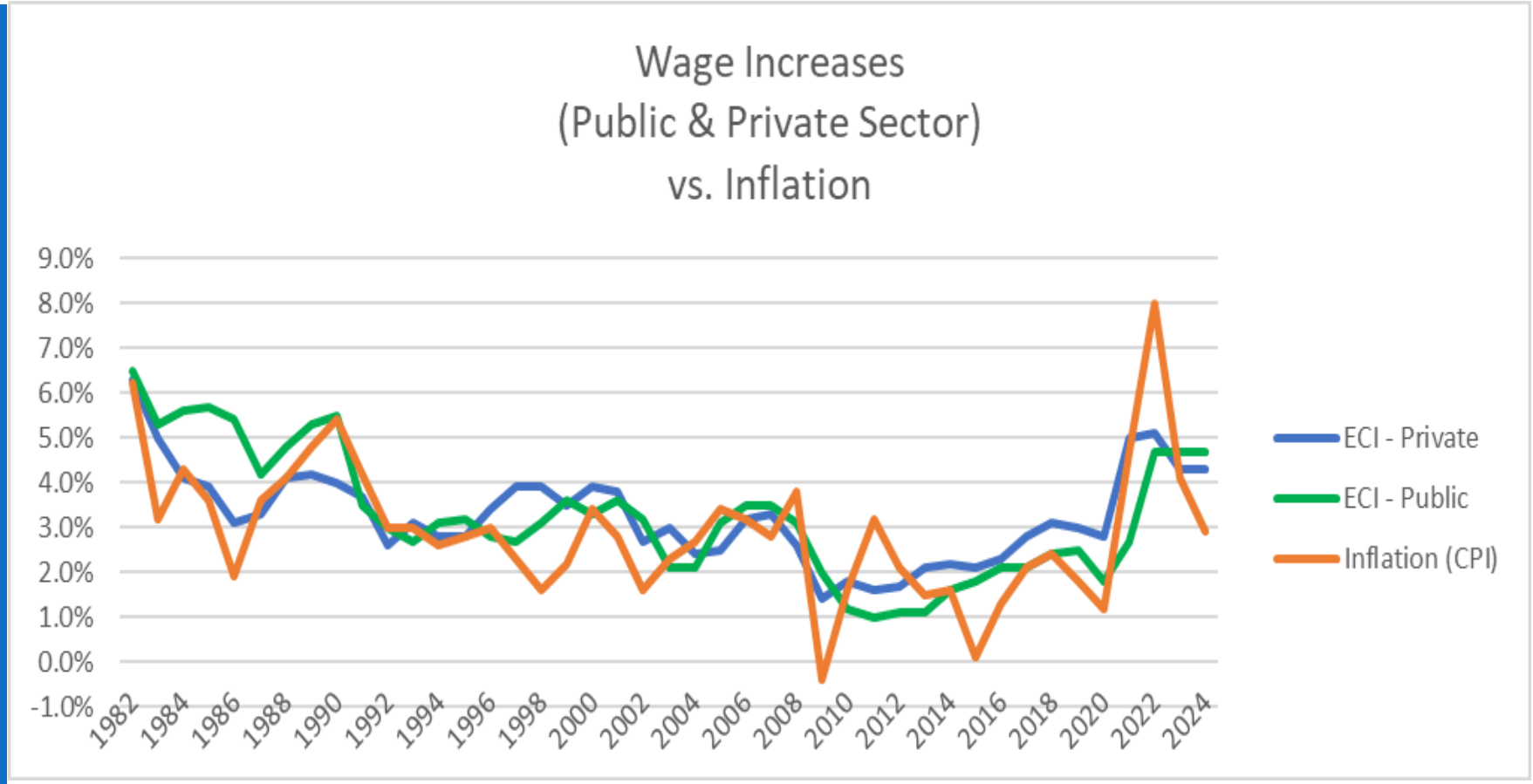
42 year

CPI vs. ECI



ECI Public & Private Sector Average = 3.3% (+134.5% over time)
CPI-U Average = 2.9% (+119.8% over time)

Source: BLS

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Can AI Fix Everything?

Technology offers potential for extending our reach…not just for replacing us

- Nothing is bias free
- Predictions are not decisions: only a component
- Algorithms can be complicated and not easily understandable
- Can create a false sense of security that fosters illusion of objectivity
- Analytics cannot completely and accurately capture the full scope of the workforce issue(s) being examined
- Relying on historical data alone could result in the lack of consideration of new or unexpected issues (e.g., COVID)
- Risk exists of becoming technology forward instead of people forward (human judgment still matters in HR decision making)
- Legal risks

Source: E. Anne Hanson, ESQ., Fisher & Phillips

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We Are Dealing With People:

Not Algorithms

- Employees are prone to think their performance should be rated higher
- Employees believe they are underpaid
- We accept data that agrees with beliefs more readily than conflicting data
- We attribute success to our efforts; failure to uncontrollable outside causes
- We are prone to chasing fads
- We fail to differentiate competence (potential) from performance (contribution)

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What Could Work?

- Educate employees on pay management
- Flexible budgeting
- Change the concept of "job" to "role"
- Rethink pay structure design
- Deliver some awards in cash, not all in the form of base pay increases
- Consider greater use of other components of the value proposition
  - Culture
  - Talent development
  - Equity participation

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