

total rewards

the employment value proposition



Do organizations really need a pay philosophy to identify how to attract, retain and motivate employees? Or, would they be better served with an attraction philosophy, a retention philosophy or an employment value proposition that considers the role of compensation among the many tools that they use to attract and retain employees?

Recent surveys indicate 88 percent of employees leave organizations for reasons other than money. In fact, the top three reasons talented employees leave are limited opportunities for advancement (39 percent), unhappiness with management (23 percent) and lack of recognition (17 percent). Reason No. 4 is inadequate salary and benefits (11 percent), according to a March 2004 Robert Half

QUICK LOOK

- ⇒ Recent surveys indicate 88 percent of employees leave organizations for reasons other than money.
- ⇒ A company needs an employment value proposition — a statement of why the total work experience at its organization is superior to that at other companies.
- ⇒ There are six key ways compensation expertise can be applied to bring the employment value proposition to life.

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International survey. So, why do companies use pay as their primary retention vehicle? Perhaps companies think it is easier and more quantifiable. Or perhaps because 89 percent of managers mistakenly believe the primary reason employees leave an organization is for a higher salary, according to the Saratoga Institute.

How We Got Here

The pay philosophy has become a central part of designing and managing pay programs at major organizations. After all, compensation is the most visible component of the contract between company and worker, and it is the most quantifiable measure of the value the company places on the employee. But while it may make sense to have guiding principles around one of the organization’s largest expense items, there is not any value in a generic compensation philosophy that states there is intent to pay at the 50th percentile to attract, retain and motivate good employees. Instead, pay’s role must be depicted within the context of the work policies and practices that will help attract, retain and motivate good people.

As motivational theorist Abraham Maslow once observed, “If the only tool

you have is a hammer, you will see every problem as a nail.” And if compensation is the only tool specifically directed at attracting and retaining high-performing employees, then it is apparent why the vast majority of managers believe employees leave because of compensation. Instead of spending time and resources trying to figure out how to throw more money at departing employees, while maintaining internal equity and achieving some nominal return on compensation investment, organizations need to invest in the following:

- Providing opportunities for employees to grow, learn and develop despite their length of employment and where they sit on the pay scale
- Developing managerial skills and ensuring the fair and consistent application of company policy (no favoritism)
- Designing creative ways to recognize all employees for their role in company success.

The Employment Value Proposition

Companies need an employment value proposition — a statement of why the total work experience at their organization is superior to that at other companies. The value proposition will identify the unique people policies, processes and

programs that demonstrate the company’s commitment to employee growth and recognition and management development. The reasons people choose to commit themselves to the organization are contained within the value proposition.

Start developing the employment value proposition by asking the central question, “What would we say or do to attract and retain people if we had to pay 20 percent below market?” Some follow-up questions should include the following:

- How do our nontraditional rewards set us apart? For example, Nucor offers \$2,000-per-year college scholarships to each child of an employee who has more than two years of service. The Levi Strauss Foundation donates \$500 to community organizations in which an employee actively participates for a year. McDonald’s offers a three-month sabbatical after 10 years of service.
- How do we manage better? For example, Boeing has a “no messenger” policy. Team members must solve problems on the spot and are discouraged from finding a manager to solve it. Whole Foods runs its grocery, baking and produce departments with self-managed teams. Self-directed work teams at Baylor Medical Center set their own schedules and do their own interviewing and hiring.

• What makes our culture special?
For example, Starbucks creates an inclusive culture by providing part-time employees with full benefits and stock options. First Federal Bank of California has an informal culture reinforced by a policy that requires employees to address each other on a first-name basis. And among the many ways Ben & Jerry's differentiates itself is it donates 1 percent of profits to programs that support peace.
After defining all of the things that a company has going for it, then discuss the role compensation plays in the employment value proposition.

According to the June 24, 2004, edition of *the Wall Street Journal*, although a bit irreverent, a manager at a major corporation explained his organization's pay philosophy as follows: "Your pay is designed to keep you sullen but not mutinous. If you're satisfied, it's too high. If you quit, it's too low." Pay should provide employees with a fair return on their investment of time, skills and energy, but ideally, it should not provide them with the fundamental reason they come to work each day. As said by Jeffrey Pfeffer, professor of organizational behavior at Stanford Business School in the May 1998 edition of *Harvard Business Review*, "People work for money, but they work even more for meaning in their lives. In fact, they work to have fun. Companies that ignore this fact are essentially bribing their employees and will pay the price in lack of loyalty and commitment."

The Role of Compensation Expertise in Executing the Employment Value Proposition

Downplaying the role of compensation doesn't mean downplaying the role of the compensation manager. The brains behind most of the differentiating factors in the employment value proposition still reside in the compensation department. Most outstanding

compensation professionals are not experts at market-pay analysis, but experts at developing programs to recognize, direct and develop employees.

By upgrading the pay philosophy, a company is changing its obsession with pay levels and market-pay data to an obsession with giving employees a supportive work environment and a sense of purpose in their work. Following are the six key ways compensation expertise can be applied to bring the employment value proposition to life:

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1. Connecting employees to the success of the business. The ability to provide employees with a personal connection to the business can make an enormous difference in how they view their work and how they approach their day-to-day activity. Compensation managers need to take the organization's vision and methodically divide it into factors, subfactors and activities that employees can relate to their job. A tool to assist in this process is the "personal impact map." (See the October 2003 edition

of *workspan* for a step-by-step process to developing a personal impact map.) With the personal impact map, each employee can identify how specific activities that he or she performs contribute to the organization's vision. By doing so, employees are provided with a deeper sense of purpose, and it makes their work more meaningful.

2. Defining performance. Defining performance has four primary elements:

1. Recognizing the competencies that enable success in the position
2. Detailing the work practices and processes that optimize success
3. Identifying expected job performance levels
4. Properly defining the outcomes that determine high-level success.

In a 20-year study by the Gallup organization, "knowing what is expected of one" was the top factor in motivating employees enough to make their employers successful, according to the article "Motivate with a Carrot, Not a Stick," from the Oct. 15, 2005, *Business and Legal Report*. Defining performance is important for every job. All jobs can be done well, and all jobs can be done poorly. If levels of performance are indefinable, then an organization has not properly examined the need for this position and the role it plays in its success.

3. Monitoring/measuring employee growth. Not only is the growth and development of employees a great way to retain them, it is also a great way to help an organization succeed. Reinforcing a "growth culture," where employees are hungry to take on more responsibilities, to learn new skills and knowledge and to develop their work competencies, will contribute mightily to the continuous improvement of an organization. Many companies have incorporated into their annual performance-appraisal process an

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employee development section. What they have not done is measured the result of this development. During the past 12 months, what has the employee done to enable himself or herself to contribute more to the organization in the future? Tracking employee growth — the annual change in his or her expected contribution — is a periodic reminder of the employee’s professional advancement at the organization.

4. Introducing growth-based pay increases. Traditional pay adjustment policies provide annual salary increases based on the employee’s annual performance rating and where an employee falls within the pay range for his or her job, but ignore the level of expected future contribution. A “growth culture” provides opportunities for all to advance and grow, regardless of how long they

have been in the organization or how high is their current pay level. Employees who will contribute more to the organization in the future than they have in the past deserve a base-pay increase. And employees who will contribute at the same level in the future as they have in the past have not earned a base-pay increase, even though their annual results may be deserving of an incentive payout.

5. Introducing results-based incentives.

Just as base-pay increases should be viewed as “look ahead” rewards for growth and sustaining higher contribution levels, short-term incentives should be viewed as “look back” recognition for results achieved. The short-term incentive is a direct reward for the role the employee or team played in business success over a predefined past performance period. All employees should be eligible for results-based incentives because they take some pressure off of using base-pay increases, the most expensive reward, as the only reward element.

6. Developing upward performance-appraisal tools.

Upward appraisals (employees evaluating their supervisor) are not new, but they are also not widely used and are not always focused on the development needs of poor managers. Upward appraisal tools need to identify poor managers and provide them with clues about how to overcome their deficiencies. A 2002 survey by Kelly Services identified the top reasons for poor managers as the following:

- Ignoring the opinions of junior colleagues (79 percent of respondents)
- Always having a reason why new ideas will not work (76 percent)
- Putting off tough decisions (75 percent)
- Being late for meetings (72 percent).

Companies need to stop sending managers to generic leadership training and start spending some time understanding their individual development needs and taking steps to make their management team stronger.

Pay is not Enough

For most companies, pay programs and philosophies will not be enough to attract, retain and motivate employees. However, the skills possessed by compensation professionals can prove invaluable when creating an attractive, motivational work culture. Stop over-analyzing market-pay data and “best practices” and start defining what really makes an organization special. Compensation professionals need to create employee line of sight into key business drivers, and define individual performance and reward tools that help companies manage better, in order to create a real pay-for-performance environment. 

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