Mini Guide

Actionable Guide For A Reward Strategy

How to move from Pay-for-performance to pay-for value

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Why the original rewarding model isn't working anymore

Before we dig into the new framework. Let's talk about why you should be moving away from the old reward model. Most performance management processes are still based on pre-set, superficial objectives and a yearly evaluation, which makes it impossible to correctly determine a person's performance and value. Every year, in December, managers give ratings to everyone in their teams. **For each job title and score, a fixed percentage of raise is defined.** These ratings are not only determined by the manager herself, but by calibration committees. Except for the fact that this takes a lot of effort and time discussing who's what number, it also **creates a feeling of being treated unfairly and disappointment.** If you think you're a 4 but your manager thinks you're a 3, the evaluation will not be centred around development. Instead, **you will argue your case and try to change your manager's perception of what you did in the past year.**

Moving to manager discretion

There are different alternatives to the original rewarding system. Some companies are moving to a system called manager discretion. That's when managers get to have the end decision, often together with HR's support in the form of calibration meetings. Basically, **managers will get a budget for pay raises and the freedom to divide it amongst their team members**. It's their responsibility to communicate the raise and reasoning behind it to them as well. Sounds good right? Well, not really. 2 issues still remain: First of all, a lot of companies still do calibration meetings just to make sure enough structure is provided.

Secondly, managers have a hard time explaining they did have the final say in the salary increase decision. It's easier to hide behind something else like a score. We've seen numerous examples of managers that had gotten rid of a scoring system, just to invent a whole new one of their own on the next cycle. You can't blame them for that. By making managers responsible for the decision, we push them in a role that can hurt relationships with their team members that have nothing to do with the actual work. Sometimes it's better to let an unknown third party be responsible for the end decision, that way at least the manager's loyalty isn't impacted.

The new, alternative framework you need to start implementing

We don’t believe in the old framework with ratings, we also don’t believe the managerial discretion framework works. They are both too time-consuming and do not improve motivation, fairness and retention. What your organisation needs, is **a combination of the two models.**

There's no more need for calibration reviews. Just throw them out. You can however 'redecorate' your talent reviews. If you don’t already have talent reviews, start doing them now!

“A lot of what is being done in the existing rewarding models is separating the average from the average.”

Before we dive into the new reward framework, it’s important to realise that you too will have to change your mindset. You need to understand that paying people and increasing someone’s salary is about perceived fairness and not about recognition. Because that is the job of the manager and not of the rewarding system.

When you think about it, a lot of what is being done in the existing rewarding models is separating the average from the average; take this example: if you have Mike and Dave in your team, and you decide to give Mike a ⅘ and a 5% raise and Dave a ⅗ and a 4% raise because Mike’s doing a little better than Dave, you’re actually solving **your** fairness issue, and not theirs.

They won't care about the 1% difference in pay raise, they just care about the fact that you appreciate Mike more than Dave. So why not give them both a 4% raise, while expressing your opinion on their performance in a day-to-day way. Once you realise that your fairness is not their fairness, we can step into the new model.

Basically, the talent focused rewarding framework is pretty simple, you're going to predefine the bases of the new model depending on internal and external benchmarks based on someone's skill-set or job title and you're going to give everyone that predefined salary. But you make an exception for you top talent, your 2%. You give them salary increases and bonuses, but also recognition, big projects,... In case you don't have job titles, have them "in the background".

Because your raise is not performance related anymore, you can eliminate the yearly objectives as well. If there still is a year-end evaluation, it's something between the manager and the employee and not the default for the entire organisation. We're not saying there shouldn't be any evaluations, on the contrary, we're saying there should be more continuous evaluations and they should not be related to pay.

Our take on bonuses

There's only one occasion when personal bonuses motivate: if input and output are very closely related. In most modern-day work environments, that's not the case. This means that the biggest advantage of using bonuses is no longer motivation, but reducing the fixed salary cost. That's why we suggest you only give bonuses on a group-level (Business Unit, team, company).

Implementing this new approach does not happen overnight. Key to making this succeed is communication. You have to let your employees know why you moved away from the 5 scores and this can be different for every company. What we saw one consultancy company do was tell their employees that they need to obtain a certain minimum in performance, if they achieve that, they get the in advance determined raise. They, however, reward their 2% more.

When you communicate someone's performance and they aren't part of your organisation's 2%, you just tell them they have met the minimum performance bar and get the budgeted pay raise. It would be a big mistake to try and motivate people to belong to the 2% because then you're right back in the old grading model.

What about timing?

Does all this mean you should get rid of yearly performance reviews? Not really, this greatly depends on your company. Yearly reviews are better for the organisation to predict their salary cost for the next year. However, salary increases should never be your employees' main driver. It's your task, as an HR manager to reduce the importance of salary increase and focus more on commitment and engagement.

This approach might seem tricky at first, but it can be done. Patagonia* for example, has actually eliminated annual raises for its knowledge workers. Instead, the company adjusts wages for each job much more frequently, according to research on where market rates are going. Increases can also be allocated when employees take on more-difficult projects or go above and beyond in other ways. The company retains a budget for the **top 1% of individual contributors**, and supervisors can make a case for any contribution that merits that designation.

Rating based

Talent Based

GOAL

Reward & motivate.

GOAL

Move salary discussions to the background and create a sense of perceived fairness.

MANAGER DUTIES

Managers score people on competencies & objectives and do calibration- & talent reviews.

MANAGER DUTIES

Managers indicate exceptional talent and use that for talent reviews.

HR DUTIES

Calibrate, calibrate & calibrate.

HR DUTIES

Look at external benchmarks, focus on top talent and communicate.

How to find your 2%

We said to give everyone in the same job title the same amount of percentage, however, **you have to reward your 2% more.** They are the talent you can't lose. You have to **mark down the people you think are exceptional and make sure you know what steps they could take within your company to keep on growing**. Give them a special development track and think about who could potentially replace them if their role is already crucial. Ask yourself the following questions to get to know who your 2% is:

- Who can't we live without?
- Who will we lose sleep over if they leave?
- Who has a significant impact?

Your top talent does not often know they are your most important people. It's crucial you **clearly communicate this** and do something special for them. You should also do more than just give them a salary increase. Put them on the most important projects, give them extra recognition, … Reward them in different ways.

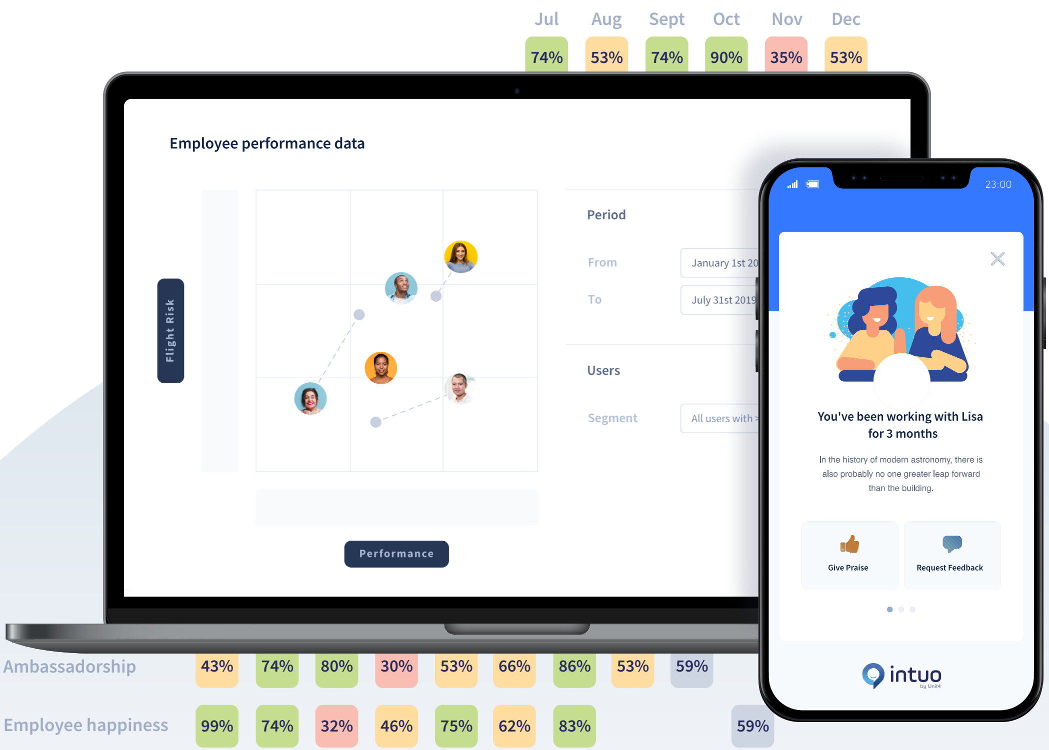
Communicate the general idea that everyone that lives up to a certain standard will get a predefined raise depending on their responsibilities and internal and external benchmark. (You could add: In very rare and specific circumstances HR can make an exception to this rule.) You have to be 100% sure your employees will not see being a top performer as their new goal. Otherwise you are right back at the start with unfairness and politics.

Don't be mistaken, this approach does not say you only have to focus on your best people. You still have to coach and follow-up everyone in the organisation! It also does not mean that this year's 2%, will be your 2% of next year.

Research conducted by intuo by Unit4

Identify your 2% top performers with intuo's software solution.

Score people based on competencies, completed objectives during personalised performance reviews.



360° **Feedback and praise**

Agile and transparent **objectives**

Learning Management System

Guided and customisable **conversations**

Frequent **engagement pulses** and surveys

Dashboarding and advanced **people analytics**

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