

What Your Employees Are Not Telling You About Your Current Rewards Programs



Why You Should Know

In companies that wish to gain a competitive advantage, there is a “momentum building” sequence that must be initiated then sustained. That sequence begins with key people understanding their roles and what’s expected of them in those stewardships. Such an understanding needs to be linked with and lead to the execution of strategic initiatives that are key performance indicators for the company – ones that must be achieved if the organization’s growth goals are to be realized.

A culture of execution breeds sustained success. That result transforms the culture of execution into a culture of confidence. Once a business achieves that unique position, it has confidence in its ability to deliver on the company’s value proposition and secure a competitive advantage.

So what makes employees execute?

Execution is an extension of the passion an employee feels about what he is doing and where it will lead him. Passion creates focus—the starting and ending point of execution in any organization. For such results to emerge in a business, it must build a total rewards foundation that addresses four key areas of importance for its workforce:

- A compelling future
- A positive work environment
- Opportunities for personal and professional development
- Financial rewards

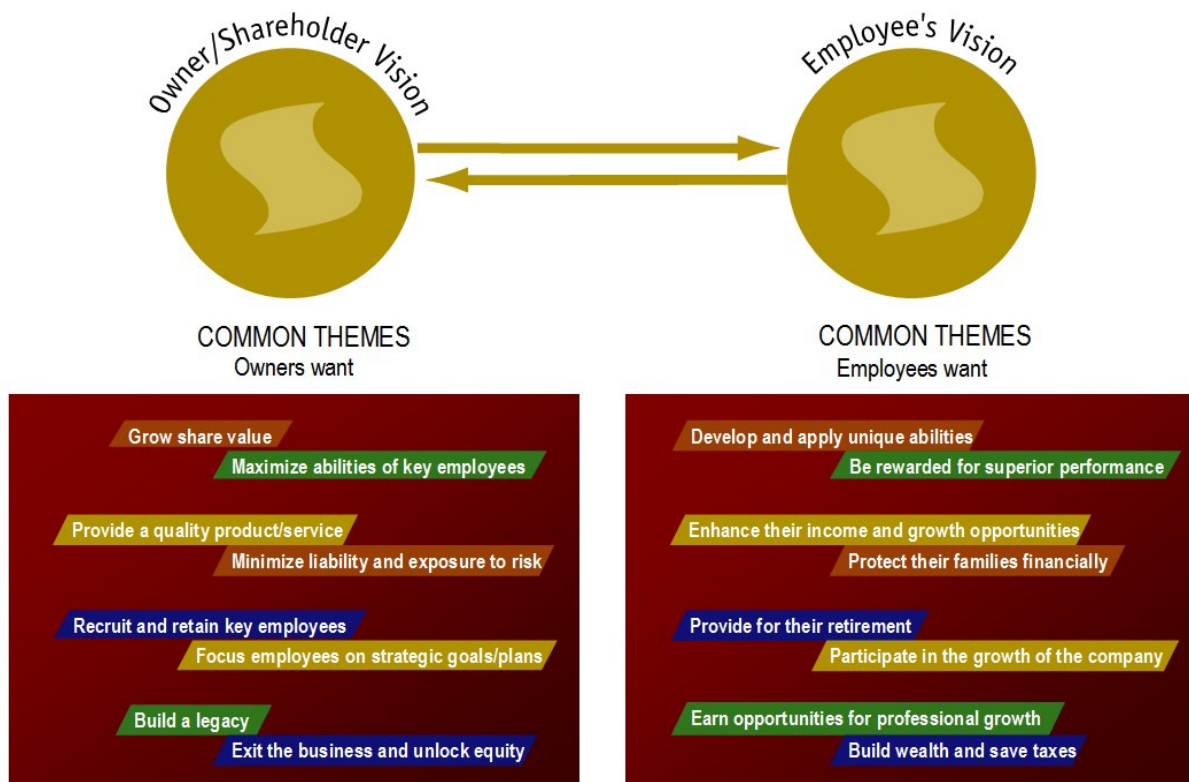
Employees in your organization have an opinion right now about how your company is doing in these four areas. They think about these issues one way or another every day they come to work. These are the reasons an individual possessed of unique abilities decides to either join one organization or another and then either stay or leave.

Given the impact these issues have on your business's ability to execute its strategy, it is of critical importance that you tap into the hearts and minds of employees and learn to unleash the passion that will bring the success you are looking for. Doing so in a way that doesn't "give away the store" is what often differentiates high performance companies from those that consistently wallow in mediocrity.

That's why you should know. Let's now build a context for what you should find out from employees and how in order to build a more effective rewards strategy.

The Two Visions

There is a fundamental philosophy that undergirds the total rewards effort of any successful business. That philosophy acknowledges that two visions exist in every organization and frames their interdependent nature of each. One of those visions belongs to company ownership, the other to employees. (See the graphic below.)



It should be intuitive that if a company can build its rewards strategies in a way that links these two visions (where fulfilling one also means fulfilling the other), it is more likely to have success in achieving its growth goals. In other words, if employees sense that their desires to develop and apply their unique abilities, participate in the growth of the company, build wealth, save for retirement and secure their financial environment can be fulfilled within the organization that employs them, they will apply the behaviors that will produce those outcomes. Doing so simultaneously leads to the fulfillment of the business owners' vision.

The challenge of ownership, then, is to design a total rewards structure that effectively fulfills the vision of employees in a way that also realizes the outcomes ownership seeks to achieve – particularly the economic results. Owners that take this approach realize that by addressing the issues that unleash the passion of their workforce and help them achieve their wealth building objectives, they are more likely to grow the equity value of their businesses – thereby increasing their own wealth standard.

What Does it Mean to Have an Effective Rewards Strategy?

Effectiveness has to do with achieving desired results—and doing so in a way that preserves and enhances the assets that produce those results.

In a rewards context, for a strategy to be effective and produce the growth results the company has targeted, it must address each of the four components mentioned earlier. And it must do so in a way that attracts and retains employees, keeps them focused on the right issues, and produces a positive economic return for the organization.

Effective financial rewards strategies come from a proper allocation of a company's investment in its compensation and benefit plans. Most companies limit their ability to create sustainable results in their business in part because they limit the range of compensation strategies they employ to impact the behavior of key individuals and teams.

From a practical standpoint, employees are expecting two things from their financial rewards program: confidence in lifestyle and participation in value creation.

Confidence in lifestyle is achieved primarily by having sustainable cash flow needs met and by securing one's financial environment. These are fulfilled primarily through a combination of salary, short-term incentives (annual bonus) and employee benefits (group insurance, cafeteria plans, supplemental insurance, etc.).

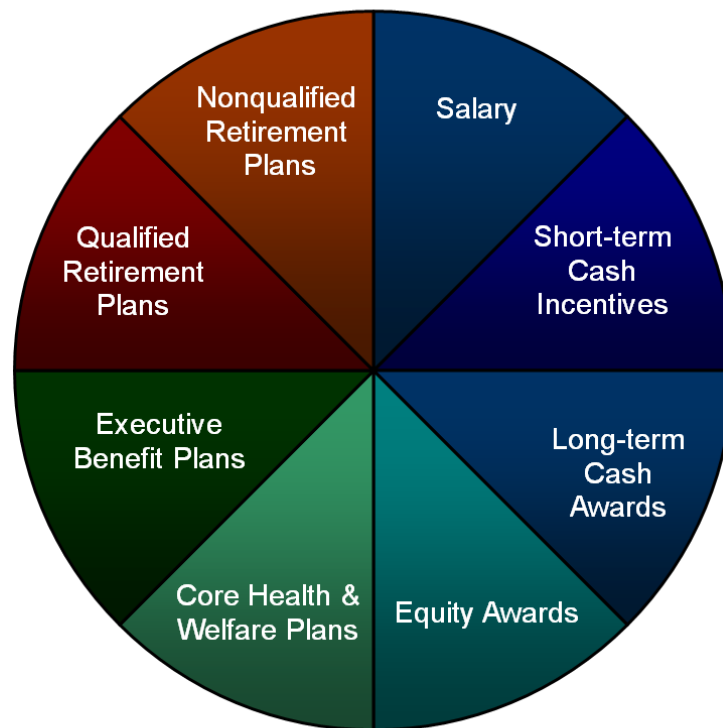
On the other hand, participation in value creation has primarily to do with wealth building opportunities. In this regard, employees seek fulfillment to issues growing out of these kinds of questions.

- If I apply my talent and ability here in a way that helps this business grow, how will I benefit from that increase?
- Is there a way to increase the amount of wealth I am building for MY future by applying my energies and efforts to building the future of this business?

Below is a pie chart of the compensation components that VisionLink suggests companies consider in the development of their rewards strategies. Certainly, not all will be used by every company. Your business is unique, and the allocation you have among these rewards components

should reflect the outcomes you wish to achieve and that will best link the visions of owners and employees in your business.

Of the segments indicated above, the most common missing ingredient in businesses today is a long-term incentive component. Whether cash, equity, or phantom equity-based, this key ingredient is critical to developing the longer-term view owners need their most valuable talent to have if their growth objectives are to be achieved. They need employees that think like owners - ones that are as concerned about growing the business as they are.



This can only occur if employees feel like they are participating in the growth they help create. Employees that see they have a stake in that future are much more likely to help bring about its fulfillment. Consequently, tying employees to the future of the company in the way they are paid is one of the ways to create an effective rewards structure; in this case, one that produces the long-term results ownership seeks to achieve.

At the end of the day, for companies to experience meaningful growth and progress, they must develop the means of helping their most valuable assets - their employees - draw the following conclusions about the businesses they work for and the rewards associated with that involvement.

1. My company has a compelling and meaningful future
2. I'm clear about what's expected of me and how to accomplish it
3. I have a meaningful financial stake in the company's success and am motivated to achieve it

The Key

The key in this process is to unleash sufficient passion in employees to create a laser beam focus on the company's most critical performance indicators. Doing so leads to a sequence of execution, success and confidence that fuels growth and secures a competitive advantage as described earlier.

Passion is unleashed when a company has achieved sufficient line of sight in the minds of its employees between the following related issues:

1. Company Vision - where is this company headed?
2. Strategy - how is it going to get there?
3. Roles and Expectations - what is my role in that strategy and what's expected of me within that role?
4. Rewards - how will I be rewarded for fulfilling those expectations?
5. Personal Vision - how do those rewards relate to my personal financial goals and requirements?

If a company is going to achieve this kind of alignment in the organization, it must generate and monitor two critical passion measures within the organization—functionality and vitality.

Functionality has to do with the philosophy and structure a company engineers to create the right focus and ensure execution. In a rewards context, it is the process of envisioning, creating and then sustaining appropriate rewards strategies.

Vitality has to do with the commitment, engagement and accountability level of employees—particularly key talent that possess unique abilities. Are employees committed to the company's future and its strategy? Is that commitment exhibited in the way employees are performing? Are there accountability mechanisms in place to ensure performance and make course corrections?

Companies that get functionality and vitality issues right typically experience line of sight. Consequently, it is important that business owners be in tune with the passion measures associated with their workforce.

When these passion measures are fulfilled, a company has a workforce that is “in sync” and there is a synergy experienced in the results that are obtained. That synergy comes from the combined focus of key people on the execution of key performance initiatives. When this is aligned properly with compensation, the results that are achieved by the company also generate a positive financial outcome for those that produced those results. Everyone wins, therefore everyone is committed and engaged.

To achieve this, a company must know and measure what is in the minds and hearts of its key talent. Doing so will typically reveal what barriers need to be overcome for greater line of sight to be achieved.

Obstacles to Achieving Line of Sight

Barriers to achieving the culture just described do not come in the same shapes and sizes in every organization. That said, they do generally fall into certain categories that are helpful to isolate so they can be addressed and a course correction initiated.

Obstacle Group 1 - Future

In this category, the company is experiencing a deficit of perspective about and/or planning for the organization's future.

- The future company has not been clearly defined by ownership
- The future company has not been clearly communicated to employees
- Employees don't see a role for themselves in the future company

It is important for a company to determine whether or not its employees understand the future of the company—and whether their understanding matches that of ownership. Often, leadership in a company feels as though it has been very clear about where the company is headed and what that means to employees, but a survey of the workforce indicates otherwise. Don't be too assumptive about what employees understand in this regard and don't expect employees to be compelled by a vision you have not yet clearly articulated.

Obstacle Group 2 - Foundation

This barrier primarily exists in companies that have taken a reactive approach to the development of their rewards strategies. They do not yet see compensation as a strategic tool that can create alignment and line of sight within the organization. There are no philosophical underpinnings for the decisions the company makes about rewards programs. As a result, such an organization is often led to make ad hoc decisions regarding compensation and benefits that are not linked to the growth plans of the enterprise.

- The company has not established a consensus about how to use rewards programs to accelerate company growth (lack of a rewards philosophy)
- A philosophy has been developed but it has not been properly communicated to the employees
- A philosophy has been adopted but it's incomplete or simply inadequate

Building a rewards foundation starts with the company's belief system. A rewards philosophy should grow out of and be an extension of the company's vision, mission, values and strategy. Companies that understand this have different compensation struggles than those that don't. For example, their struggle might be with striking the right balance between a short-term and long-term incentive plan – as opposed to whether or not to have an incentive plan at all.

Obstacle Group 3 – Framework

Framework has to do with building compensation programs within an investment rather than an expense context. Too many organizations still view rewards as a cost issue that has to be “reigned in” as opposed to an investment from which a return is anticipated and targeted.

- The company does not view compensation as an investment and therefore has no way to track or measure the return it is getting on that outlay
- The company has a history/tradition of building rewards programs as independent units and not as an integrated whole
- The company does not have clear standards (best practices) or methods to set and reset values that are consistent with employee performance expectations and company targets

The result of this barrier is that companies reap a harvest of mediocre execution and probably very little passion on the part of their employees. This is because the company is communicating one thing verbally about its vision and strategy, but something entirely different with its rewards programs. In essence, they are saying, “I want to grow this company from a \$50 million to \$75 million business over the next three years—and I am counting on your help (Mr. Key Employee) to get there.” At the same time, they are also saying, “at our company, you will be paid a competitive salary, be given health insurance and can participate in our 401K plan.”

Just what about that rewards framework communicates to an employee—especially one that is confident in his unique abilities—that he is essential to the growth plan of the organization, or how he will personally benefit from helping the organization realize its future company vision?

Obstacle Group 4 – Focus

A focus obstacle occurs in a business when there are good programs in place to incent people to perform, but they are not understood, appreciated or impacting behavior. Leadership in companies that are experiencing this phenomenon is often found scratching its head while saying, “we pay our people in the 90th percentile of what the market indicates for total compensation in our industry – yet our people are not engaged and don’t think like owners. There is no consistent focus on executing key performance indicators.”

- The full potential value of the total rewards plan is not regularly and powerfully communicated
- Only some of the plans (but not all) are built to generate “line-of-sight”
- Company systems and personnel are not equipped to handle the annual management of effective rewards strategies (they are reactive rather than proactive)

Often, companies that lack focus find themselves missing the mark in trying to solve the problems they are facing. While they may need to re-engineer one of their plans (or introduce a new one), they may just as well need to better support the plans they currently have in place. Are performance management systems operating effectively? Are incentive awards understood, promoted, celebrated and consistently communicated? Are expectations and rewards clearly linked

in the minds of employees? Can employees see a path of confidence in their lifestyle through the company pay programs and understand how they will participate in value creation?

If a company is going to overcome any or all of these obstacles, it must be able to assess its current position and chart a corrective course for the future. One of the key resources to tap in when making such an evaluation is the group of key people that drive the success of the organization. For the most part, these are individuals that want to see the company succeed. In that context, they hope to grow and develop personally, professionally and financially.

Therefore, tapping into this resource to determine how best to move forward is critical. However, it must be done in a constructive way that allows company owners to maintain control and infuse thought leadership into the process.

The bottom line is that if the obstacles just described are not dealt with in your company, then...

- You won't have the capacity to recruit and retain the kind of employees who generate meaningful change and growth
- You have not fully captured the potential contribution of the people you do (and will) have

First Two Things to Measure

To come to a clear and productive understanding of where you stand with your employees, it is our recommendation that you start with two primary assessments.

"4 F" Assessment

The first is an assessment of what we call your "4 F" condition. This measurement is an evaluation of where you stand with each of the four obstacles summarized above: Future, Foundation, Framework and Focus.

A "4 F Assessment" usually involves a survey of both ownership and key employees soliciting a rating of certain crucial issues. Such a survey possesses essentially the same rating statements for ownership and employees but frames them in the context of their roles and associated perspectives. For example, some of the measures solicited in such an assessment might include the following:

Employer/Owner

(Rate each statement on a scale of one to ten as it applies to your organization)

- Our people understand and believe in the organization's future. They find it compelling.
- We have established clear compensation standards relative to market pay and best practices; and we follow them
- The value and clarity of our wealth creation opportunities engender a passionate ownership mentality

Employee

- I understand and believe in the organization's future. I find it compelling.
- The company has established clear compensation standards relative to market pay and best practices; and it follows them
- The value and clarity of the company's wealth accumulation opportunities have engendered in me a passionate ownership perspective

It is probably obvious that as company ownership compares its own responses with those of its key people in this kind of process, some discrepancies will begin to emerge. In addition, its own answers will quickly reveal areas of vulnerability that need to be addressed if it wants to create a compensation program that is a competitive advantage.

Understanding where your employees stand on the "4 F" issues is essential to building a compensation philosophy and structure that will fuel growth. Fortune 500 companies spend thousands and sometimes millions of dollars analyzing their value propositions in this way. You don't need to go that far to determine how your company is doing and what changes need to be made to create greater buy in and commitment from your workforce.

Net Motivation Score

The second type of assessment we recommend be done as a starting point in any organization is designed to "take the temperature" of employees on certain key passion measures. We do this by computing something called a Net Motivation Score (NMS).

This score is designed to help ownership examine three responses from employees:

1. Clarity of the plan
2. Believability of the plan
3. Value of the plan

As with the Diagnostic, the NMS asks employees to rate their perceptions of their compensation plan on a scale of one to ten. The score is then netted out to determine a total measure for the employee group as whole. The three assessment statements employees are given are as follows:

1. I clearly understand what personal and organizational results need to be achieved in order to receive my targeted incentive award.
2. I believe the company can, and likely will, achieve the results that will enable me to earn my targeted incentive award.
3. It is important that we achieve our results because my targeted incentive award is very meaningful to me.

You will note that these questions strive to assess three motivational issues with regard to your employees and their compensation plan. One is the level of understanding they have of results for which they are responsible. The second has to do with whether or not they buy into the idea that the results can be achieved. The third measures how meaningful the payoff is to the employee if the results are achieved.

Such “passion measures” often reveal hidden messages employees would communicate if they felt they could. When not addressed, these issues can often result at best in diluted recruiting, retention, and performance results.

Together, the “4 F” Assessment and the NMS help a company get a snapshot of both functionality and vitality issues within the organization. Addressing these issues properly can literally unshackle a company from the chains that keep it from achieving its full potential. It is not an easy road to go down, but no one should expect superior results without paying the price associated with their achievement.

In Conclusion

Within every organization there lies the potential to achieve all of the goals it wishes to fulfill. That potential is unleashed only when a clear vision has been defined, a mission and values are in place, a strategy has been mapped, roles and expectations have been aligned and a reward structure has been erected to tie it all together. Execution and the culture of confidence that it engenders, are the source of the potential each company has. Tapping into that source requires listening, assessing, then engineering and executing. Those that pay the price to accomplish this will shatter the ceiling of complexity that often holds them hostage and lay claim on the fruits of success and competitive advantage that all high performance companies seek.

VisionLink is a national compensation consulting firm focused on helping companies envision, create and sustain compensation strategies that will be key drivers of results and increase the productivity of employees.



7700 Irvine Center Drive, Suite 930 • Irvine, CA 92618 • (888) 703-0080 • Fax: (949) 852-2299
www.vladvisors.com