Quick poll question - #1

Do employees in your organization feel that they are rewarded fairly?

1. Strong Yes, very few concerns
2. Generally OK, with some concerns
3. Somewhat, quite a bit of noise though
4. Strong No, we have some real issues
5. Not sure
Quick poll question - #2

How do you know?

1. We directly ask employees if they feel fairly paid via formal employee opinion surveys, focus groups and exit interviews
2. We informally gather information via informal feedback processes and indirect discussions with managers
3. We draw inferences (make assumptions) from turnover statistics, employee surveys, etc.
4. We really don’t know
Quick poll question - #3

What does it mean to reward employees “fairly” in your organization (pick the top 2)?

1. Consistency with “the deal” that has been promised to the employee via the line manager
2. Consistency with the organization reward philosophy, goals or objectives
3. Consistency with how other employees in similar jobs are rewarded within the organization
4. Consistency with how other employees in similar employee groups (but not similar jobs) are rewarded within the organization
5. Consistency with how employees are rewarded in other organizations
6. Other – none of the above
Agenda

- Fairness: Does it matter?
- Research initiative
- Findings and discussion
- Recommendations
Fairness: Does it Matter?
Monkeys go on strike if they do not get a fair deal

“Monkeys that had previously been perfectly happy with a slice of cucumber suddenly stopped accepting it when they saw their partners getting a grape”

*Nature Magazine*: Summer 2004
Research demonstrates that employees’ perception of fairness and equitable treatment is a core driver of retention, engagement and performance.
Unfair treatment is corrosive

- Creates a climate of distrust and hostility
- Erodes performance and commitment to the organization
- Increases counterproductive work behavior
- Reduces willingness of employees to help each other
- Increases unionizing activity
- Increases voluntary turnover and absenteeism
Unfair treatment drives people out of organizations

From our employee opinion research database (*), the factors that drive employees out of organizations include (in rank order)

1. Career development opportunities
2. Compensation
3. Work climate
4. Manager/supervisory conflict
5. Lack of challenging work
6. Direction of organization
7. Lack of recognition

*Most of these involve perceptions of unfair treatment relative to other employees*

Note: (*) Hay Group employee opinion database of 4MM employee records
Research has found that overall fairness in the workplace—"organizational justice"—is comprised of three components:

- **Distributive**
  - Equity versus equality in rewards

- **Procedural**
  - Fair/consistent reward processes

- **Interactional**
  - Employee x employer interaction

- While distinct, there is often correlation amongst the three
- Deficiencies in any of the three can cause fairness gaps
Reward fairness concerns are typically “relative”

Relative to my skills, capabilities and performance:

- Amount of effort I invest
- Quality and impact of my performance
- Education, experience and training I possess
- The content and complexity of my current role

And, relative to:

- My supervisor and my subordinates
- Peers doing the same job and similar jobs in my organization
- Peers in other organizations
We know that reward fairness is . . .

- Important – it fundamentally affects our ability to retain and motivate employees
- Complicated – employees make numerous and often very different equity comparisons that may change day-to-day
- In our domain – impacted by us as reward professionals…
  - Via reward strategies and program design
  - Via programs and practices for which we are responsible
And yet, reward fairness is often…

- Not directly addressed in our reward philosophies, programs and policies
- Delegated (abdicated) to line managers to address
- Treated simplistically relying on equal treatment principles
- Not consistently evaluated to understand real issues
02

Research Initiative
Our research objectives

How important is the notion of fairness in rewards programs in organizations today?

What impacts employee perceptions of reward fairness?

What works (and what doesn’t) in terms of improving fairness in reward programs?

... and what are the implications for reward program design and implementation?
Research scope

- Broad based reward programs
- Large multi-national organizations
- Managerial / professional population
- Reward / HR survey respondents
568 WorldatWork members participated

Methods of analysis:

- Descriptive analysis (e.g., means and frequencies)
- Quantitative and qualitative analysis
- Data examined in terms of organization size and sector of the economy
Representative survey participants
Participant demographics

- **Public**
  - Less than 100: 13%
  - 100 to 999: 35%
  - 1,000 to 4,999: 26%
  - 5,000 to 9,999: 10%
  - 10,000 to 39,999: 10%
  - 40,000 or more: 9%

- **Nonprofit**
  - Less than 100: 15%

- **Private**
  - Less than 100: 11%
  - 100 to 999: 10%
  - 1,000 to 4,999: 9%
  - 5,000 to 9,999: 5%
  - 10,000 to 39,999: 4%
  - 40,000 or more: 3%

- **Private – Publicly Traded**
  - Less than 100: 29%

- **Private – Privately Held**
  - Less than 100: 35%
  - 100 to 999: 26%
  - 1,000 to 4,999: 10%
  - 5,000 to 9,999: 10%
  - 10,000 to 39,999: 9%
  - 40,000 or more: 11%
Findings and Discussion
Frequency of employee concerns about internal and external equity

- Career development opportunities: 74% internal, 59% external
- Base pay/merit increases: 73% internal, 66% external
- Base pay amount: 67% internal, 78% external
- Non-financial recognition: 66% internal, 43% external
- Employee development/training: 56% internal, 44% external
- Job levelling/grading: 52% internal, 36% external
- Variable pay (bonuses/incentives): 52% internal, 50% external
- Flexible work arrangement: 49% internal, 40% external
- Job titles: 49% internal, 38% external
- Health care benefits: 40% internal, 41% external
- Retirement benefits: 32% internal, 32% external

Note: %s include constant, frequent and occasional responses
Senior management’s view of reward fairness

A primary mission critical objective

<table>
<thead>
<tr>
<th>Internal fairness</th>
<th>External fairness</th>
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<td>16%</td>
<td>15%</td>
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An important, but not mission critical objective

<table>
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<tr>
<td>42%</td>
<td>44%</td>
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A secondary objective

<table>
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<tr>
<td>14%</td>
<td>18%</td>
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Not an objective, but results from a well designed program

<table>
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<tr>
<th>Internal fairness</th>
<th>External fairness</th>
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<tr>
<td>18%</td>
<td>11%</td>
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It is not considered in reward system design

<table>
<thead>
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<th>Internal fairness</th>
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<tr>
<td>8%</td>
<td>6%</td>
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Don’t know

<table>
<thead>
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<tr>
<td>3%</td>
<td>5%</td>
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Implications: an important, although not mission critical issue. Internal and external equity concerns carry equal weight in the eyes of senior management.
Most important criteria impacting reward fairness

**Implications**: invest in establishing fair design, instrumentation, processes and administration of job designs, person-role fit and performance assessment processes.

Note: %s are frequency of two most important criteria per reward element
Drivers in determining organization rewards

Drivers:
- Consistency with organization reward philosophy, goals or objectives: 88%
- Consistency with what has been promised to the employee: 84%
- Consistency with how employees in similar jobs are rewarded within the company: 82%
- Consistency with how employees in similar groups are rewarded within the company: 65%
- Consistency with how employees are rewarded in other organizations: 43%

Implications: is there a disconnect between the amount of time and attention we’ve been spending on reward strategy development and execution vs. compensation benchmarking activities?
Perceptions of reward fairness: What works well (Top 5)?

Implications: Communications is king. Focus on core messages, messengers, mediums, sustaining messages, equipping managers and creative approaches.
Perceptions of reward fairness: What has eroded perceptions of fairness (Top 5)?

- Poor economy, pay cuts, pay freezes: 34%
- Inconsistent application, favoritism, exceptions: 19%
- Communications: 11%
- Leadership: 3%
- Reward strategy and design: 2%

**Implications**: While some areas are outside of our control (e.g., economy), equipping managers to more equitably distribute and communicate rewards can make a big impact.
Recommendations
Our top seven list

1. Understand your employees’ perspectives
2. Decode your organization’s value system
3. Define what fairness means in your reward programs
4. Focus on rewards that most impact fairness
5. Develop management capability
6. Develop strong communication processes
7. Measure effectiveness
1. Understand your employees’ perspectives

Most organizations do an inadequate job in understanding employee perceptions and preferences related to reward programs

- The best reward programs balance the needs of the organization and the employee
- Don’t confuse equitable treatment with equal treatment (i.e., distributive justice). A one-size-fits all approaches won’t work.
2. Decode your organization’s value system

Translate your mission and values to how it relates to your reward programs

- Organizations’ mission and value are generally most understood by senior leadership and least understood by employees and first-level managers.

- Few human capital or reward program strategies explicitly address how fairness and equity are defined and managed.

- Most reward strategies/philosophies are not sufficiently robust and need to be made more explicit.
3. Define what fairness means

How do you define fairness (or unfairness) in your reward program?

1. What aspects of fairness/equity cause us the most/least concern?
2. Should reward programs and policies vary by employee group?
3. Which types of internal comparisons cause us the most/least concern?
4. What values we should be recognizing in non-financial reward programs?
5. How do we resolve disconnects between internal and external job values?
6. What is the degree of openness/transparency in reward communications?
7. What is the degree of consistency/decentralization in rewards?
4. Focus on rewards that most impact fairness

Fairness in rewards must extend beyond monetary rewards. These are the ones that are of most concern to employees:

- Job design and work valuing systems:
- Career development platforms
- Performance management processes
- Recognition processes
5. Develop management capability

Managers have the most impact in creating an energizing work environment. Focus on increasing self-awareness and closing capability gaps.

- **Self-awareness:** Understanding current climate gaps and how behavior (leadership styles) impacts the climate experienced by employees

- **Practical skill building:** Learning ways to improve the climate
  - Clarity – increasing transparency in the organization
  - Standards – developing challenging goals and providing feedback
  - Rewards – recognizing & rewarding employees relative to their contributions
Managers’ impact of a positive work climate

More effective managers create more positive work climates

“Perhaps the most important thing in this whole area of rewards is having a good boss because they set the right kind of work climate in the organization” - Scott White, VP Performance and People Systems, Applebees Intl.
6. Strong communication processes

Clear communications are essential

- Most organizations have reward philosophies – but few are written down. Fewer report much employee understanding.

- The best reward program poorly implemented will often yield less than strong execution with an average design.

- If the reward program is not clearly explained, employee confidence in fairness and execution is likely to be low.

Most organizations have a reward philosophy...

but how many employees understand it?
7. Measure effectiveness

The majority of organizations do NOT formally evaluate the effectiveness of their reward programs, and less than a third calculate any form of ROI.

- There are two primary schools of thought:
  - Reward programs as a *cost of doing business*... then the goal is to *minimize*
  - Reward programs as an *investment*... then the goal is to *optimize*

- So the organizations, its managers and HR are likely to behave differently depending on their view.
7. Measure effectiveness (cont.)

Adopt a systematic process for evaluating reward program effectiveness, using multiple perspectives and rigorous and consistent processes

- Use employee opinion surveys and/or focus groups to understand how employees and managers feel about fairness in the reward program
- Test employee understanding of alternatives to promoting reward fairness
- Monitor the influence of fairness and equity on employee behavior
- Assess the operational results that the reward program is expected to impact
- Calculate the ROI, program costs, and value added or reward programs
What else is on your list?
Your questions
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