

USING

Compensation



TO MOTIVATE

Performance



The relationship between an employer and employee is based upon an exchange of value. Most of the time, the value being exchanged is money for work. And most of the time, depending on the quality of employee performance or output, that amount of money will vary.

Sounds simple enough, right?

But high-performing companies know that there's a significant level of nuance involved in optimizing that exchange of value. So how do these organizations most effectively compensate their employees to motivate outstanding performance?

Modern workplaces demand modern pay practices, and business leaders need to utilize their compensation dollars where they'll have the most impact and inspire the best results.

With this ebook, we'll explain how to most effectively use compensation to motivate performance within your organization.

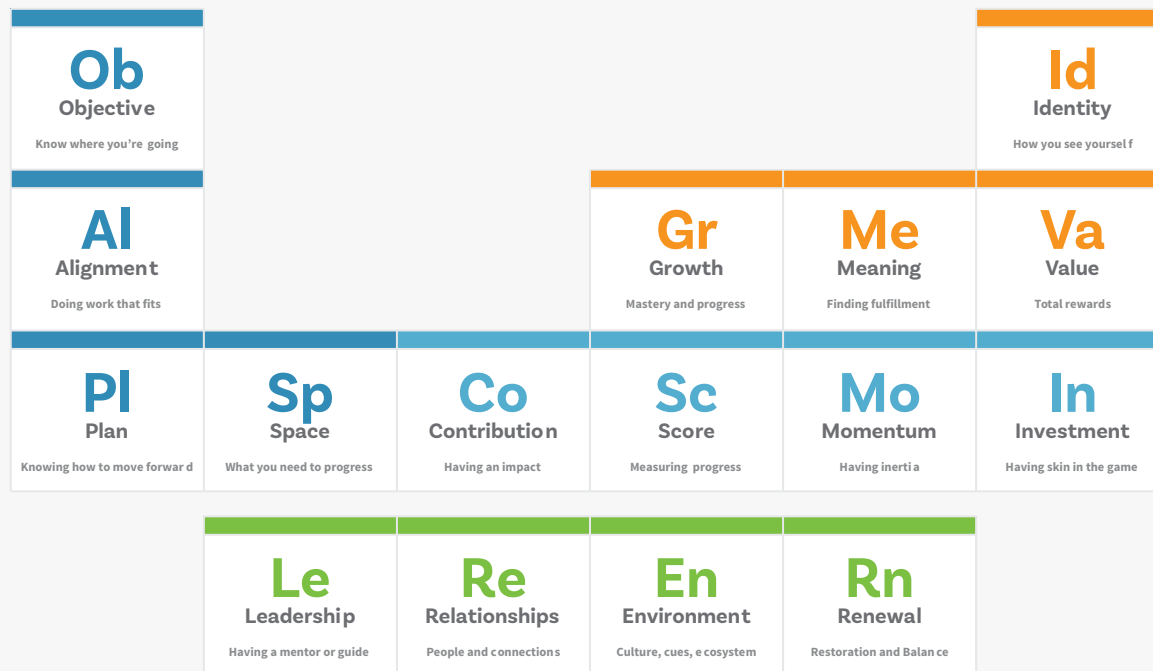
01

Compensation is the Cornerstone of Culture

EVERYONE KNOWS - LIKE IT OR NOT - MONEY MAKES THE WORLD GO 'ROUND.
BUT IT'S NOT EVERYTHING.

Long-term success is about making a profit, yes. But it's also about building the best team so that you can accomplish your mission. Leading organizations have realized that investing in people and culture is crucial to their success.

According to Rusty Lindquist, Vice President of Thought Leadership at BambooHR, there are 16 primary elements required to create a culture of high performance. These elements interact and all of them have an impact on employee engagement and performance. Compensation has an impact on several of these elements, but most especially on the element of Value.



Few things affect a person more than the perception of their own value and their perception of how others value them. This is particularly true when it comes to a person's employer, given there's a monetary figure attached to that value.

While we recognize that compensation alone does not lead to employee engagement, it is a primary influencer. None of the stories we create about what we value as a company are as important as the story we tell each employee about how we value them.

Compensation is necessary to attract, retain and motivate talent. You can get all the other things about culture right, but if you get comp wrong, nothing else will matter. It's crucial to become strategic about compensation.

02

Most Employees Think They're Underpaid

WHILE COMPENSATION IS CERTAINLY THE CORNERSTONE OF EMPLOYEE ENGAGEMENT, IT MUST BE COUPLED WITH GOOD COMMUNICATION FOR AN EMPLOYEE TO TRULY FEEL VALUED.

The PayScale [*Compensation Best Practices Report*](#) (CBPR) shows that there is a gulf between how employers believe employees feel, and how they actually feel. Employees often feel undervalued. While 43% of employers surveyed think that their employees feel they're paid fairly, only 21% of employees feel they're paid fairly.

When people don't understand the reasoning behind their salary, they usually believe they're underpaid. A lack of transparency can lead to frustration, which can lead to resentment; [*Sixty percent of employees*](#) who said they're underpaid also said they intended to look for a new job.

According to SHRM, the cost of replacing an employee is somewhere between 90 percent and 200 percent of their annual salary; researchers at Columbia University pegged it at 150 percent, depending on the position. That said, the true cost of losing an employee is more than your organization is likely to realize, because the costs are often hidden, delayed, or difficult to attribute.

Ensuring employees feel valued is not necessarily about paying more, but about being more transparent. [*Eighty-two percent of employees*](#) felt satisfied at their organization even if they were underpaid—if they understood the reasons why.

03

Train Your Managers to Talk About Comp

Managers are on the front lines when it comes to communicating compensation with your employees, and they have far more comp conversations than anyone else in your organization. Despite this, they're usually ill equipped to have them.

In fact, according to the [CBPR](#), only 19 percent of organizations feel very confident in their managers' ability to have tough conversations about pay.

Many managers have been promoted to management because they were great individual contributors, not because they demonstrated great soft skills. But we can teach managers how to have effective conversations about pay.

Understanding the value drivers on both sides of the equation can lead to better comp conversations and more satisfied employees.

When a manager is having a compensation conversation with an employee, it's critical that the manager understand and recognize where the employee feels there's a misalignment so he/or she is able to address it.

An invaluable resource we can give managers when they're having conversations with employees about comp is data, particularly in the form of an Employee Compensation Report. An [*Employee Compensation Report*](#) provides the data that allows a manager to say, "This is our compensation philosophy, and here's where you line up."

This report can help your managers gain credibility with employees; the mere presence of an Employee Compensation Report tells employees that their company cares so much about getting compensation right that they've done due diligence on the compensation of each and every employee in the organization.



04

Linking Pay to Performance

If you want to use compensation to motivate performance, you'll need to commit to a modern performance-based pay strategy that:

- *Aligns performance to business goals and business cycles*
- *Ensures that employee are paid for results*
- *Is understood by all employees and managers*
- *And incorporates creativity into the total rewards programs*

GET SMART WITH GOALS

What do you want to reward with your compensation dollars?

To have an effective pay for performance program, you need to have good goals and metrics at all levels -- individual, departmental and company-wide. You'll also want to make sure that each individual employee has line of sight into how their efforts contribute to the overall success of the organization.

One of the most tactical examples is a sales rep or account executive; their individual goals for new customer acquisition comes from their sale department goal for customer acquisition, which comes from the company's goal for new revenue.

In addition, be sure that your goals are Specific, Measurable, Attainable, Relevant and Timely (SMART); this increases the likelihood individual goals won't be thrown to the wayside because they're unrealistic, murky or simply not that important after all.

REWARD PERFORMANCE WITH MEANINGFUL BASE PAY INCREASES

High-performing employees want to feel like they are getting bigger salary increases than average or low performers. If 80 percent of your workforce are considered "high-performers", you won't have enough budget left to reward truly outstanding performance. To ensure that you are differentiating pay by performance levels, consider using a merit matrix to allocate your compensation budget.

The matrix is created by plotting employee performance ratings against salary ranges. This compensation tool can help you ensure you're allocating pay fairly -- based on where someone is in their salary range and performance. Sometimes, depending on how many ratings you have, a merit matrix can significantly differentiate pay for your highest performers.



	Below Min (18)	Bottom Third (58)	Middle Third (64)	Top Third (47)	Above Max (13)
(High Performance) Exceeds Expectations (33)	8% Raise (1)	8% Raise (7)	6% Raise (43)	4% Raise (9)	0% Raise (3)
Meets Expectations (132)	4.5 % Raise (12)	4.5 % Raise (46)	3 % Raise (38)	2 % Raise (30)	0 % Raise (6)
(Low Performance) Exceeds Expectations (35)	0% Raise (5)	0% Raise (5)	0% Raise (13)	0% Raise (8)	0% Raise (4)

In this example, you see that the highest performers who are low in range receive a notable 8 percent increase, while those who merely meet expectations receive increases that are a full 3.5 percent lower. At the top end of the range, high performers receive almost double what average performers receive.

The matrix can also be used to frame conversations about pay between HR and managers, as well as managers and employees, because it provides a more objective standard for pay decisions.

Related: [5 Steps to Creating a Merit Matrix](#)

Although the merit matrix can be a great tool, it works best when you have a “sufficient” or “modest” budget. If your budget is tight, or you need to put more into variable costs than fixed costs, you might consider these options:

Prioritize paying to the market: price your jobs competitively to the market (that’s your talent market, not your physical location) and use some budget to ensure that all employees are within the ranges you established. Give market-based increases for those positions where the market has shown a steady upward trend.

Ensure internal equity: focus on paying fairly across your organization. Use your budget to fix potential pay inequity issues, such as addressing compression or closing a gender pay gap.

Invest your budget in an incentive pool. Set goals and priorities that align to your business goals and pay out against those goals on a cadence that makes sense for your business.

COMMUNICATE YOUR PLAN, AND GET EMPLOYEE BUY-IN

Your performance management system won't drive behavioral shifts if your employees don't understand it or don't believe it's measuring relevant things. In short, you need employee buy-in. Get it by clearly and regularly communicating how the system works and why your employees should care.

You'll also want to get all your managers onboard, as they're the ones who need to buy into how your organization intends to evaluate employee performance.

Get Creative With How You Recognize and Reward Employees

Most companies don't have unlimited budgets to meet the salary expectations of all its employees, but recognition and rewards -- which can cost very little -- can go a long way.

So how do you create a rewards and recognition program that's just right for your company? When starting out, consider these tips:

1. BE INTENTIONAL ABOUT WHAT YOU CHOOSE TO RECOGNIZE

Consider the types of behaviors and actions you want to recognize. What are the behaviors you'd like others to follow?

2. MAKE IT TIMELY

Immediate recognition gives employees instant feedback to guide them to desired outcomes. Recognizing employees often helps them continue to feel valued every day.

3. MAKE IT GENUINE AND PERSONAL

Recognition has a bigger impact if it's genuine and personal. Knowing your employees helps you choose a reward that they will truly appreciate. For example, an outgoing employee might enjoy a shoutout at the front of a company meeting while a more reserved employee might prefer one-on-one praise.

4. MAKE IT COLLABORATIVE

Leaders shouldn't be the only ones doling out recognition. Provide opportunities for employees to nominate each other for great work.

5. BE FAIR

Make sure that your rewards program recognizes less-visible contributions to your organization. The first step is to identify metrics for excellent performance, and not just in revenue dollars. Your organization is full of hidden heroes fulfilling their roles and doing great work, whether they're in the office every day or part of your remote workforce. Showing that you understand how their efforts support your success is essential for keeping these hidden heroes engaged with your organization.

6. GET CREATIVE

Rewarding employees isn't just about how much money you spend. It's also about having fun and letting people know you care about their contributions. Get creative with it.

One employer we know "kidnapped" his employees, transported them to a local electronics store, gave them gift certificates for \$200, and told they had to spend it right away. Years later, employees were still talking about how much fun they had.

Other creative solutions include:

- *Passes to sporting events*
- *Catered lunches for winning teams*
- *Days off after meeting big deadlines*
- *Choice of work assignments*
- *Development opportunities*
- *Lunch with the CEO*
- *Remote work or flexible work location*

For more ideas on how you can get creative with total rewards, check out this e-book [13 Ways to Get Recognition and Rewards Right](#)

As we mentioned earlier, we know that while compensation and rewards are key to motivating performance, there are other critical ingredients required to build a high performing organization.



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Additional Elements of Engagement

LET'S GO BACK TO THE ELEMENTS OF EMPLOYEE ENGAGEMENT
AND TAKE A DEEPER LOOK AT WHAT MAKES AN EMPLOYEE GET UP
IN THE MORNING AND LOOK FORWARD TO THE DAY AHEAD.

GOOD PAY

The relationship between pay and employee satisfaction has been debated time and again in the literature, most likely because money means so many different things to different people. However, two truths are constant:

- 1. Employees need money to live and*
- 2. Money is used as a measure of value by employers and employees.*

So no matter where it's ranked on the latest employee survey, pay matters. Every time employees need to make good on a bill or plan out their financial future, they think about their pay and the value their employer places on their work.

FLEXIBILITY

When SHRM surveyed HR professionals about “Challenges Facing HR Over the Next 10 Years,” 59 percent responded that retaining and rewarding the best employees was their main concern. And when asked how they thought this goal could be achieved, 40 percent answered “providing flexible work arrangements.”



An article in Time magazine referenced a survey by the American Psychological Association reporting that the top reasons Americans give for not leaving their current jobs are “*I enjoy the work I do*” and it “*fits well with the other areas of my life.*”

Most employees are looking for better work/life balance and are willing to show loyalty to those employers who provide it.

RESPECT

Employees want to know what they think matters and they want to be treated as valuable members of the team. At the very least, employees have no desire to be shouted at, demeaned or humiliated at work by an abusive manager or coworker.

Employers who give more than lip service to the notion of workplace respect are way ahead of the curve and will experience greater worker loyalty as a result.

INTERESTING WORK

Most people would prefer to be intellectually challenged at work than not. When you consider that a full-time employee will likely spend more waking hours at work than at home, it’s not hard to understand why she would rather her work not feel like a waste of time and talent. Pay matters, yes — but even the best pay can’t compensate for boring, mind-numbing work that provides no enjoyment and little mental stimulation.

AUTONOMY

Employees appreciate being able to fulfill their work duties in a manner that suits their temperaments. Often, there is more than one way to achieve a goal, and employees value the freedom to choose how they tackle their tasks. the way that feels most comfortable to them. Managers who insist that “*it’s my way or the highway*” (when there really is another way) frustrate employees and cause them to begin considering other employment options.

To learn more about what your employees want and how you can move the needle on employee engagement, read this e-book “[*Getting Real About Employee Engagement*](#)”

06

Summary

High-performing organizations know strategically motivating employee performance via compensation – and culture is crucial to overall success, and adequately compensating top-performers is more important now than ever before.

Modern workplaces demand modern pay practices, and business leaders need to utilize their compensation dollars where they'll have the most impact and inspire the best results. By aligning performance metrics to organizational goals, ensuring that your organization is rewarding employee results, focusing on clear communication, and incorporating creativity into the total rewards programs, you'll be well on your way to success.



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