

# Outlook for 2008

## COMPENSATION

### *Cash and Caring in 2008*

**W**hen WorldatWork was founded more than 50 years ago, the small group of compensation managers could not possibly have imagined that within a few decades, the topic of pay would take on such breadth and depth as to form a profession.

As the profession continues to evolve, there are many indications that practitioners will re-define compensation to go well beyond monetary rewards. Several surveys (Hewitt, Mercer and WorldatWork) point to a 2008 with slimmer salary budgets, escalating health care costs and higher energy prices. With employment costs rising, compensation programs will move further away from entitlement to a focus on performance.

In 2008, compensation professionals will concentrate on:

- *Pay for performance* – not pay for the masses;
- *Customized rewards* – no more “one size fits all;” and
- *Personalized recognition* – not programmatic recognition.

#### **Cash is King**

Organizations will, of course, continue to focus on pay, because top performers most frequently cite it (71 percent) as a reason they leave an organization. This makes it increasingly important to get the pay mix right. Offering more variable pay allows organizations to differentiate pay based on performance and award more to top-performing employees. According to Hewitt Associates, more than 90 percent of companies today offer at least one type of broad-based variable pay plan, up from 80 percent in 2006 and just 51 percent in 1991.

While cash will continue to be necessary, it will no longer be sufficient in the years to come. To the high performers, cash is a transaction: “I give you eight, nine, sometimes 14 hours a day in exchange for pay.” To elicit discretionary effort (extra time, brain power and energy), transactional rewards must be strategically coupled with relational rewards. You’ve got to win both the hearts and minds of your people.

Granted, informal and relational programs must be part of a well-designed plan, complete with results-driven measures and accountability, but there is no question they will become pivotal. Organizations must recognize that top talent deserves top rewards. Even if you can’t promote your high performers to more responsible positions or raise their salaries, you can:

- Showcase their work or make it available to others;
- Reward them with special designations;
- Grant them wider access to strategic-planning processes;
- Assign them greater decision-making responsibilities;
- Offer them new leadership roles; and/or
- Show you care about them as individuals.

#### **Dare to Care**

In short, workers need to know you care. The 2006-2007 Watson Wyatt and WorldatWork report, “Strategic Rewards: Aligning Rewards with the Changing Employment Deal,” declared, “The overwhelming majority of companies (86 percent) think they do a good job of treating employees well, but only 55 percent of employees agree.” Relational contracts provide a personal and direct response to an employee—an appreciative, mentoring relationship designed to support, recognize, motivate and inspire long-term commitments. These rewards complement transactional contracts that involve concrete economic terms—typically a clearly defined exchange of competence and rewards (work for a salary) between an employee and organization.

In the past, we’ve resorted to treating everyone the same in our fast-paced, discrimination-sensitive environments. Personalized recognition is uncommon, but it will be essential in the future. Many times, a simple, sincere “thank you” can work wonders. When something more elaborate is appropriate, creatively tailoring your recognition says you went the extra mile. Rather than a cash reward, consider a more personal reward such as a gift certificate for a popular steakhouse for the steak lover, hard-to-get tickets to a game for the baseball fanatic or cooking classes for the weekend pastry chef.

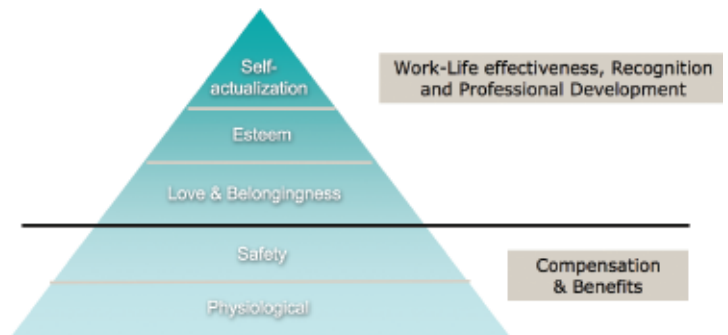
#### **Rewards Can Backfire**

As you navigate the leading edge of relational options in the year ahead, remember, rewards are in the eye of the beholder. In order for an employee to view something as a reward, it has to be valued by the individual. Otherwise, it can backfire on you.

For example, here at WorldatWork, we reward assigned covered parking spots to employees on their 20th anniversary. Because of the desert heat, employees place a premium on covered parking and, currently, only one employee enjoys this perk. Our head of creative services



Maslow's Hierarchy of Needs



Maslow, A. H. (1970). *Motivation and Personality* (2nd ed.). New York: Harper and Row.

(Barry) is celebrating his 20th anniversary in a couple of years. In talking to him, I learned that Barry does not view assigned covered parking to be a reward. Why? Because Barry starts his day at 6 a.m. and has first choice of unassigned covered parking slots. On the issue of travel, employee attitudes go both ways: Some people see it as a perk; others consider it a hardship.

Unlike in the past, fewer of today's employees consider a promotion a reward: According to FWI/Catalyst/Boston College, in 2002, only 52 percent of college-educated men wanted to move into jobs with more responsibility compared to 68 percent in 1992, a decline of 16 percentage points. Among women, only 36 percent of college-educated women wanted more responsibility versus 57 percent in 1992, a decline of 21 percentage points.

Therefore, moving forward, employers need to take the time to understand what their employees value. A lack of alignment and understanding between employees and employers is creating monumental losses in terms of time and money.

**Priceless Rewards**

Many employees seek self-actualization through their work. On Maslow's hierarchy of needs (see graphic), compensation (i.e. a paycheck) only fulfills a person's safety needs. The upper part of the hierarchy—esteem, belongingness and self-actualization—is fulfilled by work-life effectiveness, recognition and professional development. Realizing this, enlightened organizations will offer more developmental opportunities.

Developmental opportunities include:

- **Learning opportunities** – tuition assistance, attendance at outside seminars, conferences, virtual education, etc.;
- **Coaching and mentoring** – leadership training, formal or informal mentoring programs, etc.; and/or
- **Advancement opportunities** – overseas assignments, assignments to special task forces or committees.

When I was in New York City recently, I met a reporter from a leading business newspaper in Germany. This young lady was here on special assignment for eight weeks. Her editor agreed to trade her for the summer with an American reporter who took over her desk in Germany. This powerful form of non-monetary recognition can help employees gain new skills and experiences. It also demonstrates trust in their abilities, and adds variety to an individual's work.

While inexpensive to give, this type of recognition is priceless to receive.

Hewitt research has found “employee engagement levels at companies categorized as ‘high growth’ exceed by 20 percent those of lower-growth companies.” Watson Wyatt found “the stock prices of companies with high employee trust levels outperform companies with low trust levels by 186 percent.”

On the flip side, Gallup findings indicate that “actively disengaged employees cost the American economy [approximately] \$350 billion annually in lost productivity.”

If you are left with any question about the importance of incorporating engagement-oriented options in your total rewards package in the coming year, consider this: New studies are showing that more and more analysts are incorporating a company's engagement statistics into their investment decisions.

**The Future is Now**

As 2007 gives way to 2008, employers need to start planning now to create innovative compensation strategies for their employees. By incorporating pay-for-performance, customized rewards and personalized recognition, you're sure to put together a comprehensive package that meets every employee's wants and needs.

There are some things money can't buy...Employee engagement? Priceless! **BCS**

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