

# Looking at Rewards Holistically\*

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Imagine you are the Vice President of Human Resources at one of the world's largest hospitality companies, you hire 75,000 front-line workers every year in the United States alone, your corporation receives the highest ratings for employee and customer satisfaction, and you are weeks away from the grand opening of another top-notch resort. Sounds great, but there's one glitch . . . senior management is becoming concerned that you won't be able to find enough qualified associates to open the property. And, once you find them, you have trouble retaining them. This company was not alone in its challenge, but, unlike many other large corporations, the company was able to identify the problem, quantify its impact on the business, and implement remedies that would appreciably enhance its profits.

Since the 1950s, this hospitality industry leader has been building an impeccable international reputation for customer and employee satisfaction. Customers are extremely loyal, and employees rank the chain as a top employer in its industry. Still, there was a time when the company's senior management became concerned that it would not be able to open properties on time, not due to construction delays, but because there might not be enough hourly workers to provide the important services that its customers expected. To make matters worse, the company was having difficulties retaining its employees—the very people who said it was the best place to work. Under pressure to improve the situation, management proposed the typical solutions: pay higher salaries, increase incentive compensation, offer additional benefits, and so on. But at what cost? And which would solve the problem?

This chapter outlines a new way of looking at rewards—a holistic approach that uses measurement to:

- Determine what an organization *actually* values (in terms of skills, knowledge, experience, and behaviors).

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- Analyze the impact of the broad spectrum of reward programs (pay, benefits, and careers) on human capital and, in turn, on an organization's profitability.

The authors guide readers through this hospitality organization's challenge—from problem to analysis to solution—and demonstrate how its new approach to rewards strategy can significantly add to the bottom line.

## 1.1 WHY IS REWARD STRATEGY IMPORTANT?

Today's competitive conditions make it more difficult for employers to acquire and retain experienced and productive talent. The growing awareness that finding, motivating, developing, and keeping employees is a key component of business success has raised expectations for human resource (HR) departments. Today, the HR function is being scrutinized more closely, with expectations that it will make a contribution to the business—just like finance, accounting, marketing, and sales. The reward programs that have been the traditional domain of HR (e.g., pay, benefits, training) represent a significant and growing investment for an organization. In general, these programs have been managed discretely rather than as part of an overall *strategy*. As leadership looks to HR to support the organization's business objectives and enhance profitability, some tough questions need to be answered:

- How can we attract and retain the *right* people?
- How do we motivate and develop employees?
- Do we know what skills, knowledge, experience, and behaviors we actually reward?
- How do we pay for performance?
- Are pay, benefits, and career investments aligned with each other—and with our business strategy?
- How do we measure the return on our investment in people?

A broader concept of rewards, and reward strategy, is needed to answer these questions effectively.

## 1.2 WHAT CONSTITUTES A REWARD STRATEGY?

Surely, an individual's evaluation of a job opportunity is based on more than just current *pay*. It also includes the *benefits* that a company might offer, as well as the opportunities for learning and advancement: the *career*. In assessing the rewards being offered by a company to its current and prospective employees, it

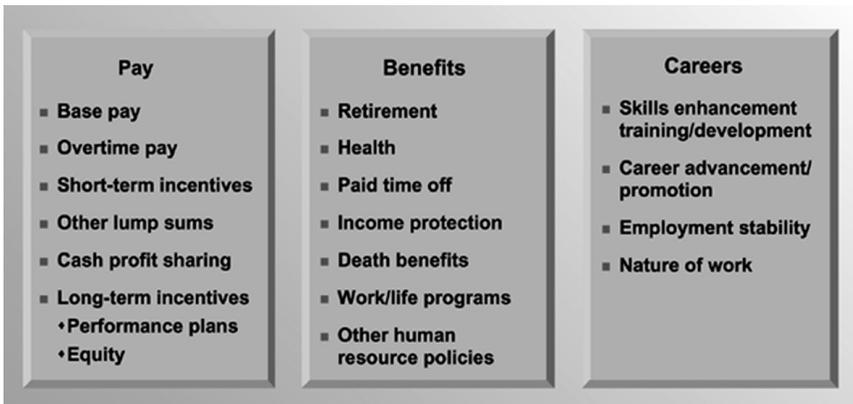
is important to understand the relationship among these three important reward components (see Exhibit 1.1).

### (a) Pay

Everyone, especially workers, knows the importance of *pay*. It includes base pay plus additional compensation in the form of incentives or bonus awards, stock options, and stock grants.

Many HR professionals believe that higher pay helps attract talent and reduce turnover. This is usually true, but it tells us little about the economics of the company's pay positioning. For example, let's look at TechCo, a high-tech firm that relies heavily on technology professionals. To attract the best and brightest, the company developed a pay package—including widespread use of stock options—which placed it at the 95th percentile. This upfront cost was expected to deliver a return in the form of lower turnover, particularly among high performers. But the strategy was not successful: turnover actually increased! Subsequent analysis of TechCo's business design and employee data revealed that TechCo's rewards were misaligned with its business strategy. The company was rewarding autonomy and innovation, whereas its business model required speed, consistency, and efficiency. Moreover, through its reward system, TechCo was attracting the wrong people. In the end, these people were still leaving the firm because the work—manipulating existing technology—was not motivating to the type of employees being hired. Unlike many of its competitors, the *right* people for TechCo were not “the best and the brightest” but rather were solid, homegrown performers. To retain these key employees, TechCo needed to focus more on careers, building a reward strategy that paid more for the development

**Exhibit 1.1** Looking at Rewards Holistically.



Source: © Mercer Human Resource Consulting, Inc., 2001.

of technical expertise over time. Organizations struggle to define “the *right* equation”: how to pay the *right* people, the *right* amount, for the *right* reason at the *right* time. For TechCo, the right equation would have yielded a much less costly reward system with much larger returns.

### **(b) Benefits**

Another key reward component is *benefits*, which, like pay, are measurable and can be valuable tools in attracting and retaining the right employees. But, the HR executive who looks exclusively at benefits, or only benefits and pay, may be short-changing his or her organization. Benefit plans have changed remarkably in recent times as companies move away from traditional pension plans, seeking out account balance plan alternatives designed to attract and motivate a “21st-century” workforce, which is generally older and has shorter service expectations. Newer programs like flexible benefits—allowing employees to choose their own benefit choices—as well as casual dress and more flexible hours have become standard in some industries. As benefits take on new characteristics, they become even more useful as a reward tool. But the picture is still larger.

### **(c) Careers**

HR professionals, while trying to determine the right combination of pay and benefits, at times neglect an important component: *careers*. Careers represent the future value to employees of staying with an organization (i.e., what *will* they be paid and what jobs *will* they have). It is the opportunity to learn and grow; in many cases, employees forgo higher current salaries and better benefits for the prospect of career advancement. Have you or anyone you know turned down a higher-paying job offer? Our experience indicates that one-third to one-half of those turning down a higher offer state that higher current pay was important, but the opportunity for career advancement was even more important. We find that people trade off these reward components in different ways, depending on their stages of life. When people consider offers, they’re considering both the current rewards and their expectations regarding the value of future rewards. For example, how many young adults join the Army because they’re looking forward to a lifetime of low pay? Many dedicated soldiers choose a career in the armed forces, but most join the Army to learn valuable skills, to decommission out of the Army, and to use those skills for a more fruitful civilian career.

The role of careers in the rewards mix depends on many factors. A company in the high-tech industry is more likely to have young employees who are focused more on acquiring the latest skills than on growing their retirement savings. A company in an established industry that requires experienced (typically

older) workers, however, might consider a reward mix that balances wealth accumulation through retirement plans with current cash compensation.

In the following sections, we show how a measured strategy that holistically looks at pay, benefits, and careers can become a driving force toward realizing your company's business objectives. After all, just as "you are what you eat," organizations "become what they reward."

### 1.3 HOW CORPORATE AMERICA *CURRENTLY* LOOKS AT REWARDS

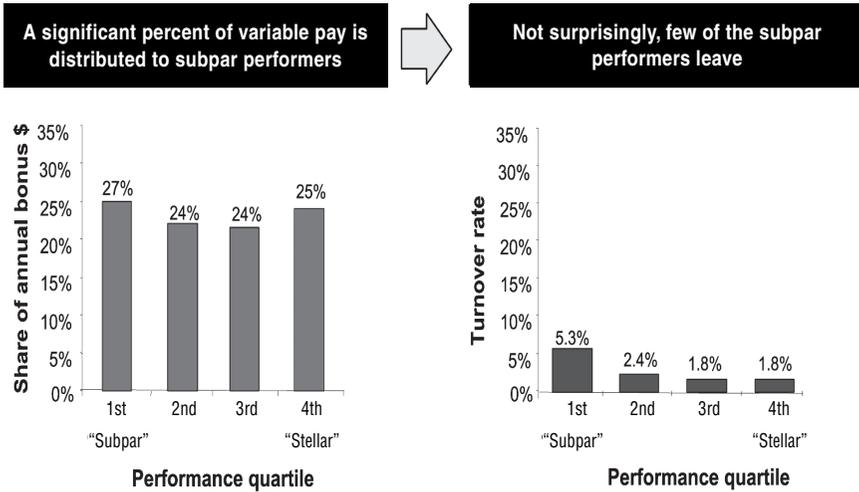
Ask an HR executive: "Do you currently have a reward strategy?" In most cases, the executive will reply, "Of course." And indeed, most HR executives work hard to efficiently manage compensation and benefits programs. The question, however, is effectiveness: Does your company *maximize* its return on human capital? Are you getting the biggest bang for the buck? And, are you *buying* the *right* things? The current tools typically used to manage reward investments (e.g., employee sensing, industry benchmarking, "best practice" reviews) do not provide complete answers to these key questions. As a result, many organizations find themselves in the following reward strategy quandaries.

#### (a) Piecemeal Solutions

Given the day-to-day nature and structure of their jobs, many HR professionals spend the bulk of their time responding to specific tactical issues and crises. In fact, with the proliferation of the recent HR department downsizings, there is less and less time to invest in overall reward *system* innovation, management, and measurement; however, these factors generally are becoming more—not less—important as overall investments in people grow larger each year.

What's wrong with addressing issues as they come up? Let's look at an example. Because of the diverse nature of one global service company's operations, HR leadership gave significant autonomy to local HR managers in designing and managing its variable pay programs. This practice gave local operations the flexibility to address attraction and retention issues quickly and effectively, or so the company thought. The organization eventually realized that few employees were leaving the firm—not even the worst performers (see Exhibit 1.2). Why? Local managers had created so much complexity in overall reward program design that the company did not realize it had more than 300 separate incentive plans, which, in fact, were subsidizing many of the "subpar" performers. How was this discovered? In an effort to manage its soaring labor costs, HR leadership used innovative, quantitative methods to track where the reward dollars were actually going and measured their impact on turnover and business performance.

**Exhibit 1.2** Percentage of Variable Pay Distributed to Subpar Performers as Related to Turnover Rate of Subpar Performers.



Source: © Mercer Human Resource Consulting, Inc., 2001.

## (b) Cost Management

When all else fails, management often turns to HR and says, “We can only afford \$X, so next year’s compensation increase pool is \$X.” Or, “benefits can not increase by more than \$Y.” This approach can make HR executives tear their hair out; yet, most organizations are focusing to some degree on cost management.

As an example, a national medical services organization needed to trim costs. Most executives turned to health benefits as an ideal target. Employees were paid a slight premium above others in the industry; therefore, the executives did not think a reduction in health benefits would materially impact attraction and retention. By going beyond benchmarking and focus groups to analyze employee data, this organization discovered that employee turnover was highly sensitive to benefit reductions—significantly more than to pay changes. In fact, statistical modeling showed that the unanticipated turnover related to this cost management initiative would have had a substantial negative impact on five key measures of business performance, including customer retention, which would far outweigh any cost savings. Only by studying this organization’s employee profile and conducting detailed statistical analyses of the business impact of different reward strategies were they able to avoid saving thousands to lose millions.

When you consider that service organizations have a payroll that may represent 40% to 60% of revenue, even small adjustments in rewards can mean an enormous loss or gain.

**(c) Look Inside and Out**

How often has this situation happened to you? A member of the executive team enters your office first thing Monday morning and says, “I overheard that one of our competitors is going to pay a premium to attract the best workers in our industry. I want our firm to do that.” An obvious problem with this approach is that what’s best for one company isn’t always right for your business. Best practices and benchmarking are useful tools, but should not be viewed as *the* answers. Best practices, or someone’s judgment that what others are doing is the way to go, can serve as a good beginning, but what’s good for other organizations—even in the same industry—is not necessarily good for your company. Benchmarking, or a review of what others are doing, is also a good start to determining reward strategy, but it should be just that—a start.

Organizations do look for answers internally as well by conducting interviews of executives, managers, front-line workers, and anyone else on the food chain. But, the information from those sources can be limited and potentially misleading. One problem with asking employees what they want is that their *stated* preferences may not match their *real* preferences. Ask employees if they want higher salaries, they say “absolutely.” Statistically analyze the employee data, and often their “real” behaviors (i.e., their decisions to stay or leave) show other aspects of the employment relationship to be far more important.

**(d) Squeaky Wheel**

For HR departments with reward strategies in place, politics and departmental turf wars often get in the way of fully executing these strategies. Many corporations throughout America experience a “squeaky wheel syndrome” in which managers who speak the loudest may have undue influence. The department manager who disdains turnover of any employees—good or not so good—shouts loudest at HR and potentially receives a greater bundle of cash with which to pay his or her workers. Because HR cannot respond for certain that the manager’s plan does not provide a measurable positive return, HR may lose the case. Without good data to support its decisions, HR is forced to respond to squeaky wheels, often yielding suboptimal results.

**1.4 THE HOSPITALITY COMPANY FINDS ITS ANSWERS****(a) Rewards Reviewed**

The hospitality company mentioned at the beginning of this chapter paid out billions to cover employee costs, which represented the largest single expense for

the business. The question was how to best allocate annual increases to pay, benefits, training, and so on. For example, what would the company gain by putting another \$50 million into benefits?

The organization's goal was to develop a comprehensive understanding of both its current and desired reward strategy, in support of its business objectives. To this end, key executives were interviewed to establish the business context—and related human capital implications—and five years of employee and organizational performance data were statistically analyzed to isolate drivers of employee behavior and property performance. Individual, organizational, and marketplace factors were evaluated independently and in combination. By connecting drivers of employee rewards to property performance, the key components needed for success from the people side of the business were isolated. The result: The company could identify the key skills and outcomes it was looking for and determine the rewards that could support their development (see Exhibit 1.3).

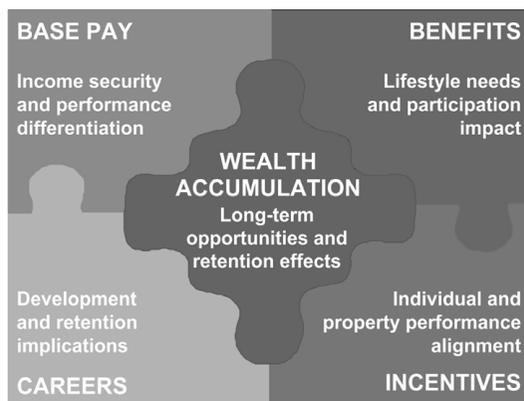
### (b) What Was Discovered . . . For Pay?

Although the organization was providing above-average pay opportunities for its employees in the aggregate, the company could improve its financial performance through additional performance-based pay differentiation. Increased incentive eligibility and opportunity also could lead to enhanced facility performance, generating \$3 for every additional dollar paid out.

### (c) What About Benefits?

Analysis showed that the gains associated with higher rates of benefit program participation—particularly retirement and certain dependent health and welfare

**Exhibit 1.3** Reward Strategy.



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coverages—could outweigh their cost by improving employee retention and property performance.

#### (d) And . . . Careers?

The management training program (where managers moved from one property to another) was found to have a positive effect on employees' career opportunities without any negative impact on property performance. In addition, employees who were promoted from hourly to manager status were more likely to stay with the company, while requiring less training than new employees.

The new reward strategy designed as a result of this quantitative analysis would not only pay for itself but would also generate an additional return on investment (ROI) of tens of millions annually.

### 1.5 HOW CORPORATE AMERICA *MIGHT* LOOK AT REWARDS

The HR industry has traditionally looked at employee data from a “compliance” perspective. Today, it is possible to create much more value using this information—by connecting these data to operational, financial, and marketplace outcomes in order to link people practices to economic results. This section looks at how HR can leverage data to contribute to its organization's bottom line—through a combination of current techniques and some new tools.

#### (a) Information Is Power

When your car's engine just does not sound quite right, you obviously know something is wrong. Furthermore, you know that the problem is under the hood or in the car body, and that there generally is a good explanation and remedy. All the information you need to diagnose and fix your car is right there at your fingertips. But where exactly do you look? What is the problem? How do you fix it? How can you make sure it remains fixed? For most people, a trained mechanic with diagnostic tools is the best answer. The good mechanic can study the “symptoms,” diagnose the problem, make repairs, retest to be sure it was fixed, and, in the end, hand you the keys to a car that's “good as new.” The only caveat to this analogy is that the mechanic must be someone with the integrity and know-how to offer you the best and most cost-effective solution.

An organization contains a vast amount of valuable information, but, like a good mechanic, you must know where, and how, to look. A good place to start is to ask people in the company two basic questions:

1. What is currently rewarded in our organization?
2. What *should* be rewarded to support our organization's business objectives?

Rarely is there complete agreement between the two or even clear concurrence on either point. For example, we often find that rewards emphasize current performance but overlook their influence in motivating and driving the development of the critical skills and competencies needed to meet future business demands; however, management must have perspective about what the root causes of the problem *are* before presenting a case for change. A good HR executive, like a good mechanic, needs to diagnose the problem, have an action plan for fixing it, and show that the resolution will create value—in this case, through better strategic alignment and a stronger ROI.

Not to mix metaphors, but, there's a treasure trove of information stored away about employees. The difficulty is finding, reading, and correctly interpreting the treasure map. This complex process requires a disciplined combination of content knowledge and statistical modeling expertise (linking and evaluating data from multiple sources) to identify untapped opportunities. But, the effort is well worth it when you can report to management that you have just saved your company 3% to 5% of annual labor cost through enhanced productivity and/or reduced expense.

### **(b) People Create Competitive Advantage**

Just as no two companies are alike, no two workforces are identical. And, different business strategies require different approaches to *human* capital. For example, a firm that needs employees who understand its products, services, systems, and procedures in order for its business to succeed may want to hire people and retain them over their careers. The more experience people have in such a company, the more valuable they may be to that company.

In a rapidly changing industry, however, an organization might want a significant and constant influx of new people because it seeks the latest expertise, which may require *buying* rather than *building* talent. Here, careers might not be as salient as short-term cash and equity. In industries such as aerospace, defense, and high technology, retention may not be as much a concern as attracting key professionals with the latest knowledge. For example, when the defense contract expires, your talent migrates to the next organization—that is, until you win your next big contract.

### **(c) Perception Is Not Always Reality**

While conducting employee focus groups and surveys is common, the information obtained by these kinds of analyses may only scratch the surface. Employee sensing can provide valuable information about what employees *say* they want, but the data also can be linked to actual employee histories to determine whether these perceptions match behavioral reality. For example, armed with information

regarding the *real*, underlying root causes for employee turnover, a company can undertake targeted initiatives, based on:

- Return on investment (ROI)—net impact versus cost.
- Feasibility—how realistic would it be to implement (e.g., administration, management, and employee acceptance).
- Risk—how predictable and/or controllable are affected turnover drivers over time.

For example, a Fortune 500 commercial bank learned that, although exit interviews suggested that pay and workload were the primary drivers of turnover, the *real* factors that most influenced retention were promotion, job mobility, and retention of its better supervisors. The bank was able to use this information to develop a retention strategy focusing on careers and management stability. The results were quick and impressive. Similarly, a Global 500 manufacturing organization learned that, although its employees *perceived* little connection between pay and individual performance, the *real* relationship was consistent and strong. The company was able to use this information to improve communication about rewards and performance management, avoiding significant new—and unnecessary—reward investments.

## 1.6 HOW TO DEVELOP AN EFFECTIVE PROGRAM

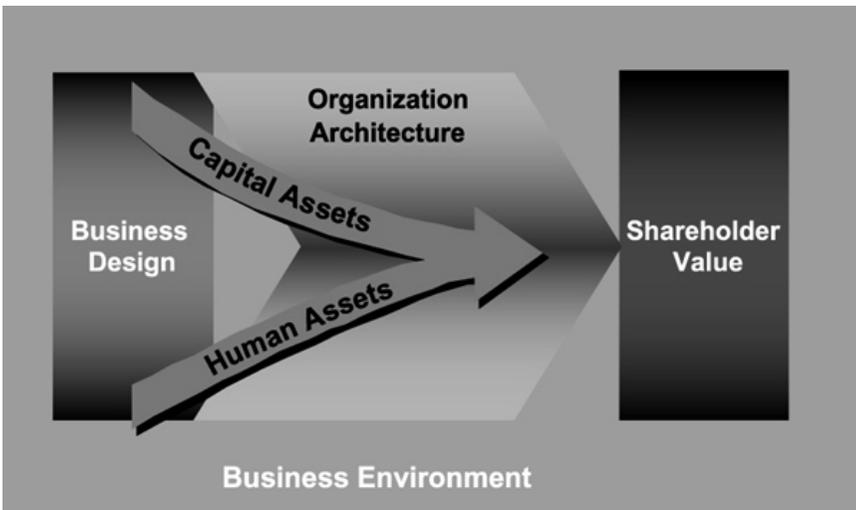
A holistic approach to reward strategy, combined with comprehensive tools to connect employee data to economic outcomes, can have a significant impact on human capital decisions, specifically enhancing business results. This section lays out the process for developing a successful reward strategy by understanding the underlying human capital implications of a firm's business strategy and determining the return on rewards investment (rewards ROI). Three case studies are included at the end of this chapter to show the impact of this approach for three different organizations.

*Rewards ROI* involves the statistical analysis of employee, operational, financial, and marketplace data to determine the net effects of reward investments on human capital and business outcomes. The compilation, linkage, and analysis of data can save a company a lot of time, money, and headaches by evaluating reward choices *before* making the leap to a new reward strategy. The seven-step plan is detailed as follows:

1. *Review the business environment.* Understand the key factors outside the firm (economic, geographic, regulatory, political, labor, and supplier) that affect internal business and human capital decisions.

2. *Assess the organization's business design.* Establish the business goals, context, and key performance drivers (see Exhibit 1.4).
3. *Examine critical human capital implications.* Articulate the role of people and workforce practices (including rewards, managerial structure, work processes, information and knowledge flows, and decision-making practices) in executing the business strategy (see Exhibit 1.5).
4. *Measure internal human capital reality.* Determine what is rewarded, by qualitatively and quantitatively evaluating current human capital practices (i.e., to find out both what executives and employees *think* is rewarded and what *actually is* rewarded) and the degree to which the marketplace influences the effectiveness of those practices.
5. *Identify gaps and priorities for action.* Look at human capital practices holistically to create the optimal rewards mix to motivate, develop, and in fact drive the workforce based on business objectives (e.g., pay the *right* people the *right* amount for the *right* reasons at the *right* time).
6. *Develop an action plan.* Evaluate the ROI, feasibility, and risks associated with rewards interventions to create a sustainable reward strategy that will both generate bottom-line results and support future business needs.
7. *Implement and monitor results.* Guide communication, administration, and other implementation activities to ensure consistent messaging and strategic alignment (including the creation of a *human capital scorecard* to track progress).

**Exhibit 1.4** Organizational Performance Model.



Source: © Mercer Human Resource Consulting, Inc., 2001.

Exhibit 1.5 Human Capital Strategy Model.



Source: © Mercer Human Resource Consulting, Inc., 2001.

## 1.7 CASE A: IMPLEMENTING REWARD STRATEGY TO STAY AHEAD IN THE FAST-CHANGING TECHNOLOGY INDUSTRY

### (a) Company

“Digitt,” a leading global business services company

### (b) Situation

Digitt’s compensation philosophy was to pay for performance. “If your performance helps build the bottom line, you will be rewarded,” claimed senior executives. Line managers struggled to balance this pay-for-performance philosophy with a team orientation that was designed to encourage cooperation and innovation. Therefore, when allocating incentive dollars, these line managers did *not* weigh individual performance materially; instead they generally focused on group performance, resulting in minimal differentiation between star and poor performers. The unintended consequences: Digitt’s revenues were sluggish, its new businesses were understaffed, few low performers left, and its stock price was plummeting.

### (c) Research

How was this disconnect discovered? A quantitative analysis of historical employee, organizational, and external data revealed the following:

- An employee's bonus was more a function of the employee's business unit than his or her individual performance.
- Better employees were not being rewarded for superior performance.
- The bottom 25% of the employees were still receiving about 25% of the "pay-for-performance" pool.
- The company was paying out too much to the *wrong* people for what may—or may not—have been the *right* reasons.

Digitt believed that program *design* dictated program *delivery*. Our experience has taught us that many good plan designs fall short in the implementation stage. For Digitt, plan documents espoused pay for performance, but there was no individual performance management process to facilitate and support pay decisions. Without considering how the elements of rewards and human capital strategy fit together, Digitt was not able to achieve in reality what it had intended.

This rewards allocation issue restrained—and maybe even prevented—Digitt from addressing a critical business crisis. For years, Digitt had dominated its industry . . . until advances in technology shifted service focus from mechanical to digital. As a result, the business landscape changed and Digitt was competing against new technology firms for business as well as the *right* talent. The evolving businesses demanded that management change its talent mix and motivate employees in the new businesses without losing top-performing, long-term employees in the old businesses. Digitt needed to revamp its reward strategy to:

- Attract people with new skills in support of the future business design.
- Manage attrition of employees in the "cash cow" businesses—retaining top-performers but weeding out others, strategically reallocating the limited supply of reward dollars.

### (d) Solution

Once Digitt realized that its reward strategy was misaligned (i.e., in and of itself, as well as with its human capital and business strategy), it was able to create an action plan to close the gap.

- *Compensation:* Digitt sought to reallocate compensation dollars from subpar performers in its traditional businesses to stellar performers in its new divisions by:

- Setting up a performance review process to track individual contributions.
- Enforcing performance gates for incentive distributions based on individual performance.
- Maintaining some degree of group incentives to continue to encourage its team orientation and culture.
- *Benefits:* Plans were reviewed by business unit in order to match benefit structures with desired workforce profiles (i.e., Did the human capital strategy rely on tenured employees?).
- *Careers:* The company used its strong reputation for developing talent to leverage its appeal to prospective employees of its fledgling businesses (in competing for talent with newer technology firms, Digitt’s ability to offer added job security and broader technical exposure could give it an edge in the marketplace).

**(e) Results**

This action plan is being implemented currently and is projected to save Digitt at least 6% of labor cost.

**1.8 CASE B: UTILIZING REWARD STRATEGY TO INTEGRATE—M&A OPPORTUNITIES****(a) Company**

“BankCo,” a Fortune 500 commercial bank

**(b) Situation**

With more than 20,000 employees currently, BankCo had grown substantially in recent years, much of it through an aggressive mergers and acquisitions (M&A) strategy; however, beyond the postacquisition workforce reductions, BankCo had been experiencing an astounding surge in voluntary turnover that was well above industry benchmarks, exceeding 40% among some occupational groups. This trend was hurting the organization through higher labor cost, lost productivity, customer defections, and—most significantly—its inability to manage operations effectively during M&A transitions.

BankCo’s HR department had been tracking turnover for some time to determine the extent of the problem. In particular, the HR staff gathered and reviewed reports from employee exit interviews. While the interviews revealed some reasons for departure, for the most part, they were inconclusive. HR needed

substantive and precise information in order to move quickly to develop a retention strategy and rally senior line management for implementation.

### (c) Research

BankCo accepted that it needed to track what people did—not just what they said—to find the root causes of employees' decisions to remain or depart. Employee, organizational, and marketplace data were statistically analyzed to identify factors that most affected BankCo's turnover. These factors fell into three categories: external market conditions, employee attributes, and organizational practices. The analysis quantified the impact of specific turnover drivers, allowing BankCo to prioritize interventions around those with the highest potential value relative to their costs.

BankCo found that factors relating to the strength and breadth of career opportunity far outweighed pay and other commonly suspected *culprits* as drivers of turnover. The research also showed that managerial turnover spawned great turnover among employees, particularly if those managers were high performers. Thus, focusing on managerial retention strategies would have cascading effects among the broader employee population.

### (d) Solution

Interventions included:

- *Compensation*: BankCo had planned to invest in significant market price adjustments to reduce turnover but was able to save these dollars, given the relatively small retention effect.
- *Benefits*: No overhaul was needed in benefit programs either—the big potential retention payoff was in career rewards.
- *Careers*: Turnover could be reduced substantially through much less costly initiatives, including:
  - Improving communication about available career opportunities.
  - Expanding and accelerating promotion and transfer opportunities for high-performing employees.
  - Making more concerted efforts to expand training and broaden employees' job experience within BankCo.

### (e) Results

This diagnostic work helped provide the factual basis for HR to make its business case; the hard data was compelling and galvanized CEO and organizationwide

support for swift action. Within eight months of implementation of the new strategy, BankCo reported a 20+% reduction in turnover rates and estimated \$50+ million in annual savings.

## 1.9 CASE C: CREATING AN EFFECTIVE GLOBAL REWARD STRATEGY

### (a) Company

“EquipCo,” a global manufacturer of factory equipment.

### (b) Situation

EquipCo, a U.S. multinational company, had expanded its overseas operations significantly in recent years. As a result, HR leadership found itself struggling to apply U.S. policies and programs to non-U.S. operations with inherent and substantial cultural differences. Although there was a desire to maintain global consistency, the organization realized that some practices were not easily transferable across geographies. The company wanted to create a global reward strategy that would:

- Preserve overall *brand image*.
- Ensure critical *skill development* for the organization.
- Reinforce *performance management* standards and objectives.
- Offer a controlled degree of *local flexibility* to ensure market competitiveness and cultural sensitivity.

### (c) Research

Through a combination of quantitative and qualitative analyses, looking inside and out, several potential factors were identified that could potentially impede the successful implementation of a global reward strategy at EquipCo:

- *Brand image*: Low levels of collaboration between business units, geographic locations, and functions.
- *Skill development*: Minimal recognition of individual accomplishments and weak long-term incentive compensation.
- *Performance management*: Disparate performance management practices, as well as skewed performance ratings and resulting merit increases:
  - More than 50% of employees were rated above average.

- Fewer than 2% were rated below average.
- Only a 1% difference in average merit pay increases existed between “stellar” and average performance.
- *Local flexibility*: Inconsistent expectations with respect to risk taking, accountability, and attrition management (voluntary turnover was low overall, especially among “subpar” performers).

#### (d) Solution

A global reward strategy was designed to address these issues:

- *Brand image*: Establish key marketplace messages that distinguish both the organizational and employment brand across geographies.
- *Skill development*: Identify key individual competencies for future organizational success and build these factors (e.g., risk taking, personal accountability, innovation) into reward system design, particularly focusing on incentive plan improvements.
- *Performance management*: Support a performance culture through performance rating distribution guidelines (i.e., percent rated “stellar,” above average, average, and so on), as well as associated dispersion in merit pay increases and transfer/promotion opportunities.
- *Local flexibility*: Provide broad guidelines and minimum compliance requirements globally, but also designate certain opportunities for reward program variation to accommodate differences in business environments, laws, cultures, and so on.

#### (e) Results

By bridging internal and external viewpoints and data, HR was able to establish global priorities and potential barriers. The new reward strategy is still in the implementation stage, but it is estimated to save 3% to 5% of payroll.

**How Can You Tell If Your Reward System May Be Out of Alignment?**

1. Reward elements are managed separately, particularly if you have several elements to consider (i.e., multiple incentive plans, independent benefit decision-making processes, decentralized training and development programs, and so on).
2. Reward programs are designed primarily based on competitive, industry, or “best” practices.
3. Reward programs send mixed messages.
4. Delivery of rewards is not tied to program intent (i.e., everyone in a division gets the same percent bonus payout even though the plan calls for dispersion based on performance).
5. There is difficulty in attracting and retaining key talent.
6. Pay, benefits, and career programs are not well integrated (i.e., there is no cohesive strategy).