TenStep, Inc.

TenStep Supplemental Paper

June 22, 2008

Compensation and You

Competition and high costs have further complicated business operations. Owing to financial constraints organizations are perforce forging varied approaches to achieve higher productivity. One aspect of HR practices that has witnessed tremendous change is the compensation package.

Performance-based incentives work well both for employers and employees when viewed as investments. From the organizational perspective, these programs are investments that garner growth and high performance. When employers reward diligent employees, they stand to gain from improved productivity. In short, incentives motivate employees to perform better. Organizations on their part can retain their best talent. Both factors ultimately spell higher productivity.

Such programs are not limited to the successful organizations only. Many bankrupt organizations have successfully implemented similar initiatives to enhance their productivity.

How do incentives work?

Incentives are of two types:

- Monetary
- Non-monetary

Monetary incentives range from travel benefits to merchandise to highly customized programs like personal recognition day and so on. How an organization builds its incentive programs is very important to ensure success. The HR needs to be alert and understand whether the incentive initiative is aligned with the business needs. The time when the incentives need to be deployed also determine business goals. Incentives have always been an influential feature that reflects organizational culture. The system that recognizes and rewards its deserving employees must be fair in practice and unswerving. Flavors of the month just do not work.

Linking incentives to performance

Many organizations set metrics in every department that help the employee perform better. Once the employee reaches the set metric he is rewarded aptly. That means an employee who works harder to reach the goal set is paid better or higher.

As an initiative to get out of the financial mess, one bankrupt airline designed a strategy that linked compensation to the performance. Metrics were set in every division including the mechanics and the luggage staff. This all-inclusive initiative was designed so that employees understand that every operation of the business made an impact on the bottom line profits. The ‘Success Sharing Program’ has resulted in improved performance in every division.

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Almost similar to this is the 'performance based bonus plan' of an auto supply manufacturer in Plymouth, Michigan. The plant maintains definite metrics that are targets for employees. For instance, targets can be 'increased production' or 'cease reduction.' These are fixed for a quarter or month. On achieving the set targets, the employees are rewarded (bonuses) additional benefits.

While some incentives are based on individual performance, some are determined by team performance. Like one steel manufacturer, which has been using performance-based compensation for 30 years that rewards its employees bonuses based on the efficiency of the work group. Departmental managers get their bonus depending upon the performance of their division. Employees widely appreciated the unusual compensation package. This can be substantiated by the fact that the company has zero percent turnover and is a highly profitable business today.

Non monetary incentives

Incentives need not necessarily be monetary. Non-monetary ones are just as effective. For instance, a new recruit will be positively happy when enrolled in a career development program. Training and career effectiveness heighten employee participation, especially for new recruits.

Other initiatives, especially of an organization nearing bankruptcy, can be simple but should strike the right chord. Employees like to be recognized by their employer. A genuine acknowledgement can work wonders for the hardworking employee. A simple meeting that involves the employees in making strategic decisions can be just as effective.

Companies like the steel manufacturer in the example above encourage the managers to hold meetings over dinner with their employees. The HR at the steel manufacturer understands that it's not the manager that gets the revenues but the worker.

Positive feedback:

When the company is unable to reward monetary benefits, feedback can help retain the talented workers. At the bankrupt airline mentioned above, the employees were rated on their performance on a scale of one to five. At the annual review, the employees receive their rewards based on their ratings. However, in 2004 the airline did not achieve the financial growth and the employees were just told their ratings. This honest communication acted as a positive feedback to say that the employees are valued.

Role of unions

By and large performance based pay comes into the picture when wages are decreased or when the management is unable to pay the fixed compensation package. Making the unions comprehend the rationale of such incentive based pay is not unproblematic. The management cannot make the compensation plan and tell the employees to accept it. It has to justify the compensation program and be fair to all. The introduction of any initiative needs to be an all-encompassing one. Firstly, communication must be clear and

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open. Moreover, the communication channels must be two-way to handle concerns and queries regarding the new compensation plan.

Unions and the management must work together to develop an all-beneficial incentive program.

A lesson for all

One automation company couldn't gather union support in time of its bankruptcy. The company proposed a bonus plan wherein 486 U.S. executives would be given 'cash bonuses of 30 percent to 250 percent of their salary after it combated bankruptcy.

The unions had severely criticized this move as 'workers are still going to question that anyone is worth seven to eight times more than what they make.' Offering the top management 'retention bonuses' is not uncommon but creating a compensation package for all the workers is fair and acceptable. The unions will also garner support for fair practices. Hard talks and criticism can be done way with a defined compensation package during bankruptcy.

The writing on the wall is clear: employees or the workers are most important. With any slump in the industry, the executive wealth declines. That's not the end. Compensation packages that set aside a fair pay for performance are always welcome.

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