Rewards and recognition plans that are taken on too quickly or too suddenly can stun an organization's overall effectiveness.

HEART STOPPERS

Creating Change without Harming Performance

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Organs are living things built of robust cells that, when attended to, perform their biological duties admirably. The heart is particularly special with its collection of cells that beat in harmony, effectively pumping the lifeblood around the body. But, while robust, apply too much stress and the heart becomes a dysfunctional mass and cardiac arrest results.

Organizations are living things operating through people who, when rewarded and recognized, contribute to the overall success of the business. As a community, these people represent a team that works together, effectively driving the organization forward with commitment, passion and engagement. The employee community is the lifeblood of organizational success.

QUICK LOOK

- Significant rewards changes can cause major concern to employees.
- Pushing rewards changes too fast will result in unmotivated, resentful and disengaged employees.
- The Five Ps are a practical and simple way of thinking through the impact of rewards change on employees.

Consider when too much organizational stress is applied through, for example, extreme change. The equivalent of fibrillation can result and the organization's future is in doubt. This case study is like a truculent patient: Still alive, but inclined to ignore advice on stress.

The modern realities of continuous organizational change cannot be avoided. Doctors advise patients to change lifestyle carefully; avoid the sudden, fast jogging regime after a lifetime of laziness. But do organizations have that luxury?

It often is said that to make change happen, the rewards system must change, too. Rewards attract interest and get attention, becoming a powerful, strangely addictive and dangerous drug.

The nature of the psychological contract between organization and employee fundamentally has changed from protected career to one contingent on mutual benefit. Many organizations are undergoing this change, putting in new regimes in which performance is a serious exercise and rewards are based on fitness. Some organizations push the exercise too hard and fast in a punishing, pace-setting style. Motivation suffers, resentment sets in and disengagement begins. The first steps to organizational arrest begin.

In the management of compensation, total rewards is now the accepted practice, covering everything that is obtained from the work experience. No longer just allowed to happen, the total rewards mix now is a well-considered combination of pay and ratios, down-to-earth practicalities of work and the quality and satisfaction of the work itself. As a strategy, organizations are seeking the engagement of their employees, using the "what" of total rewards to promote commitment. But it is the "how" that creates healthy success.

Figure 1 on page 60 shows how total rewards is put to work to achieve engagement. It is not enough simply to have total rewards tools in place. These might win the war for talent, but on their own will be insufficient to achieve organizational success. However, it often is the explicit structure and processes that are changed in new pay systems.

Significant rewards changes can be introduced and cause major concern to employees. The total rewards tools are deliberately redesigned to support organization change. But the effect these changes have on the organizational climate often is ignored. The organization is wise to follow a careful employee "fitness" program. Figure 2 is one way of looking at rewards fitness – not from the organization's point of view, but from the effect on the employees who are at the receiving end.

The Five Ps are a practical and simple way of thinking through the impact on employees. How will they feel about the changes that are being made? How much stress will it put on the organization's community?

In a paper presented at the 1999 WorldatWork Annual Conference, HayGroup/Rutgers research examined the success rate of new rewards programs over a five-year period. Only 40 percent were seen to be "very successful." Furthermore, the conditions for success were broadly the same for the best and worst rewards programs. Something else was at play.

Position

People talk about "my job." It is a defining part of life to many, and the status it conveys is a reward in itself. Where the job fits within the organization's structure is important to the employee and creates a sense of belonging. Satisfaction is created when the job is something special, possessing a unique content that breeds pride. The job title is very sensitive and certainly can be an implicit reward. The apparently simple symbol often has evolved over many years and an organization's conventions on the implied meaning of job titles must be respected. The job title as a "badge of honor" is an inexpensive recognition tool.

Promotion

Earning a promotion certainly is a reward sometimes worth more than the salary increase. The ability to declare a promotion to social and business peers is highly valued. It is an easy public statement of worth and much easier to discuss than the sometimes-taboo subject of actual cash. It enables the discussion of the position and the new generation of enthusiasm to make it "my job." Recent rewards structure trends, such as broadbanding, have undermined the power of status, job uniqueness and promotion opportunities. Employees are not always convinced of the benefits of these approaches. The low-cost badges of honor are reduced in the organization and may be sought after elsewhere.

Pay

Pay, or compensation, is both the easy part and the hard part. Compensation elements are the up-front aspects to which a financial value can be applied. It may directly motivate; it may not. Compensation must be at a "serious" level to be a major motivator, but "about right" to contribute to broader motivation theory. The first strategy can have a significant cost, then develop adverse behavioral consequences. Overall, the compensation design is the easy part. The hard part is to ensure a sense of fairness – a far more powerful force than the absolute level of pay. Arbitrary decisions that undermine this sense of fairness will diminish motivation whatever the pay level.

Performance

People like to be winners, so organizations need to set up performance standards that are a realistically achievable by the majority of people. Employees want organizations to create opportunities for personal success now and in the future. The measures need to be understood, measured and accepted as reasonably fair in what is a subjective management area. Service time as a performance measure has become obsolete in favor of the notion of contribution, and this is far harder to measure – and earn acceptance of measurement – by employees. Again, technical design is not the problem, but the inconsistent implementation. Employees want performance feedback almost as a right, and they want it done well. Organizations that get it wrong create negative rewards and weaken personal motivation.

Performance management is the critical tool and will not be successful solely through elegant documentation. New performance management plans should emphasize the dialogue between manager and subordinate, not the technical structure.

Pats on the Back

If performance management provides the structure, recognition creates performance effectiveness. Recognition can have a formal content, but it can all too readily fall into trite trinkets and insincere praise. It is the subtlety and spontaneity of recognition that creates a good employment climate, which is easy to lose during a change program. The desirable aspects of the organization's culture need to be maintained during the introduction of a new rewards system. Organization climate is a critical contributor to employees' discretionary effort and, in turn, leads to higher organizational performance. Recognition through pats on the back requires the empathy of leaders, as they are the people who ultimately make the difference.

FIGURE 1: PUTTING TOTAL REWARDS TO WORK

The Five P Health Check

Using the Five Ps to think through the impact of change from the employees' points of view may just prevent excessive organization stress. One problem of major changes to rewards systems is that the Five Ps become disrupted simultaneously. The rewards system can become dysfunctional and may cease to be a reward, becoming merely compensation. This is a far more negative concept; one that may be payroll costly without impact. Effective communication is crucial as people are more interested in asking, "What will these changes mean for me?" than "What will these changes do for the organization?"

Make changes to the rewards system, but make sure there is continuity and comfort in the transition. The transition may be relatively quick but should not be rushed. Consider several factors:

- How will the employees react to the Five Ps?
- What stresses will employees be put under?
- Will the organization's community be able to stand those stresses or will it cause organization arrest?

The Patient's Case History

A significant financial retail organization of about 15,000 employees was going through troubled times. Something had to be done to regain market share and profit growth. Through the years, the organization had grown into a bureaucracy, heavily controlled by the corporate headquarters. The corporate machine moved relatively slowly, and most employees found the organization comfortable but not exciting. The organization was finding that it was unable to proactively respond to the market and customers were either making this clear, or simply taking their business elsewhere.

The solution the organization chose

FIGURE 2: THE 5PS OF REWARDS

Position	• My job now
Promotion	• My job opportunities
Pay	• My current worth
Performance	• My purpose
Pats on the back	• My praise

was to redefine the business into several distribution and support channels. Five new divisions were created with the vision that each would be a free-standing business fully accountable for its own approach to marketing and managing that approach. The powerful divisional heads were permitted, at least conceptually, to put in place any management processes they deemed appropriate for the new approach. This was a major structural change that required major redeployment of property, retail sites and the whole-scale transfer of employees between divisions. It was clear that this was a major personnel issue and massive investment was put into creating HR processes and procedures to enable the fair and proper changes to employment contracts. Employee unions existed, but were generally conservative in their industrial relations activities. The intention was to create change, but to manage it carefully through an integrated transition period, followed by diversification as the divisions followed their own chosen paths. The plans looked good.

Before finishing the business migration, the organization was subject to a take-over by a much smaller organization with less than 1 percent of the employees of the retail firm and staff of a significantly different professional nature. The new owners expressed a desire to encourage their own employee management ethos; one that enjoyed very little structure at all.

The company belief was that the employees were the business' single most important resource – they shared overall business values and were the right people for that specific market. The company also made it clear that it respected entrepreneurial self-starters with a passion for their jobs. This, in turn, empowered employees and held them accountable, along with rewarding them with personal wealth.

It was radically different from the culture of the larger organization and presented some innovative and forward-thinking ideas. Outside observers foresaw a cultural clash.

The divisional leaders took to the newfound freedom with great alacrity and soon started promulgating new visions for their divisions. The battleground for winning the best staff was fought using rewards: New base salary systems, aggressive incentive plans and discussion around flexible benefits. Jobs would become roles. Performance management would be introduced.

With this change, management clashes soon started between divisions and in corporate management. Some divisions felt negatively affected by the actions of others. Suggested bonus plans were unfair. Salary offers poached other divisions' staff. Staff on shared sites enjoyed different packages.

The transition stopped running smoothly and turnover rose rapidly, with many leaving to join rival organizations. The major feedback from staff was they did not know what was going on anymore, things were happening too quickly, and the unions were becoming more militant, resisting change. Several senior management changes were made. The organization was showing clear signs of dysfunction. The organization was going into shock.

The business solution evolved over a troubled few weeks, starting with one-on-one discussions with divisional heads to clarify each leader's wish list of new rewards practices. These were followed by group discussions between the divisional leaders to achieve a high-level agreement about what changes would be mutually acceptable and over what time period. Each division then would work within the boundaries set in the high-level agreement. The organization was able to settle down again to concentrate on the real business issues rather than the internal organizational conflicts of interest. Organization stress levels subsided as staff coped with the changes over a period of time as opposed to a rapid transition.

While not explicit, the underlying causes of the organization stress in the case study were concerned with the organization of the Five Ps – there was too much going on with insufficient alignment with the majority of employees' perceptions and comfort levels. It was positive to think of an ambitious exercise program, but the organization was simply not fit enough. Consider the changes that were being made in "Where the Patient Went Wrong."

In this case, the Five Ps acted as a very useful defibrillator – that every organization should have on hand. It prevented imminent death by organization arrest, contributed by the ambitious exercise of a new rewards program. WS

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Where the Patient Went Wrong

Position

All jobs were being affected and no one was sure what job they would get or where.

Promotions

Broadbanding was proposed; the well-known grading structure was being dismantled.

Pay

Pay progression was no longer predictable. Performance was now a criterion, which was a new experience.

Performance

In the past, coming to work and doing the job was what was wanted. The new performance requirements were quite frightening and new.

Pats on the Back

The old ways of doing things have gone. New bosses and no longer any time for the staff.