

Rewards

It's not just about the money

The following fact sheets are available on line at
<http://www.aofp.ca>:

1. Becoming an Employer of Choice
2. Employee Turnover
3. Using the Turnover Calculator
4. Fostering Employee Commitment
5. Keeping your Good Employees
6. Employee Engagement
7. Essential Skills
8. Workforce Diversity
9. Managing a Family Business
10. Rewards
11. Recruiting Foreign Workers
12. Orientation
13. Employee Empowerment
14. Introducing Technology
15. Effective Appraisals

How can this fact sheet help me?

Rewards go beyond salary. The understanding of what motivates and what is important to your employees can ensure that the rewards you provide are those that are valuable to your employees. This fact sheet discusses how you can use rewards to achieve your business goals and prevent potential problems.

Challenges and Opportunities

Employers of Choice recognize that reward systems can be used to improve performance and achieve business goals. Their rewards are linked to the other workforce management practices. Those that do this well outperform those that do not in terms of earnings per share, return on assets, profit per employee, and cash flow.

A **Total Reward System** consists of intrinsic and extrinsic rewards.

Extrinsic rewards are direct financial rewards including wages, salaries, incentives, commissions and bonuses. Indirect financial rewards include benefits such as employer-paid insurance, vacation pay, and pension plans. These are not enough to optimize employee retention and performance. They also have little impact on employee engagement.

Intrinsic rewards fulfill internal needs, including the need for satisfying and challenging work, opportunities for training and skills development and to the desire to feel valued and respected.

Conestoga Meat Packers pays an hourly wage premium of \$3 to \$4 per hour once workers have satisfactorily developed knife skills.

Elmira Poultry has recently introduced a gain-sharing program for production workers that is based on a number of key measures including: worker safety, product quality, product yield, labour efficiency and energy utilization. The plan focuses on results that the company can measure, and results that the employees can directly affect.

Solutions

There are six key steps in developing an effective reward system.

Step 1. Establish Appropriate Base Pay

- Determine the worth of each job through a job evaluation.
- Group similar jobs into pay grades.
- Consider external factors such as the economy, unemployment rates, skills shortages, labour legislation and the pay practices of competitors.
- Establish base pay for each grade.

Step 2. Add some form of contingency-based pay

There are three main types of contingency-based pay:

- Skill-based pay, where pay is based upon the level of skills acquired.
- Performance-based pay, where pay is based upon excellent performance.
- Gain sharing, profit sharing and ownership.

Performance-based pay cautions

Ensure that what employees are being rewarded for is tied to critical business goals and balances the needs of multiple-stakeholders.

A pay-for-performance system that is primarily focused on individual rewards may hurt team efforts.

A pay-for-performance system that is solely focused on team rewards may lead top performers to become demotivated.

Pay-for-performance systems in which pay is highly susceptible to influences beyond the employee's control can lead to frustration and demotivation.

Skill-based pay cautions

If skills are not measured in a valid manner by trained un-biased individuals, employees will become dissatisfied with the system.

Employees who acquire all of the skills for their position eventually top out and become demotivated.

If skill acquisition is the only way to receive increased pay, performance is not being recognized or rewarded.

An organization may become tied to paying employees for skills whether or not they are in a financial position to do so.

Step 3. Design benefit programs strategically

Benefit programs, if well designed, can be used to enhance employee performance, address critical organizational issues and resolve barriers to employment. For example:

- Employees who are given discounts on their company's products are more likely to use them, develop an appreciation for the product, and take pride in sharing the product with family and friends.

When **Herman Laue** received the coveted “superior rating” in an AIB audit, this was announced to all the production workers, and was conveyed and celebrated as an achievement of the employees. Herman Laue also has an employee-of-the-month recognition program.

Resources:

Canadian Payroll Association
www.payroll.ca

Association of Workers’ Compensation
Boards of Canada www.awcbc.org

The Pay Equity Commission (Ontario)
www.gov.on.ca/lab/pec

National Centre for Employee
Ownership www.nceo.org

Recognition Plus www.recognition-plus.com/index.html

National Association for Employee
Recognition www.recognition.org

Corporate Gifts www.corporategift.com

Hewlett Packard:
www.jobs.hp.com/content/informations/benefits.asp?Lang=Enen

RBC Financial:
www.rbc.com/uniquecareers/meetrbc/totowards.html

Statistics Canada: www.statscan.ca

HR Reporter: www.hrreporter.ca (and
click on compensation or benefits)

World at Work www.worldatwork.org

Salary Expert www.salaryexpert.com

Change Dynamics
www.changedynamics.com/samples/reinfr.htm

ESOP Association of Canada www.esop-canada.com

- If an organization is located in an out-of-the-way location, a transportation allowance can be used to help remove that barrier.
- If the organization is trying to attract young mothers, an on-site day care or day-care allowance may prove to be an excellent investment.

Step 4. Provide competitive and flexible benefits

Flexible benefit programs allow employees to select benefits from those the company offers that will best meet their individual needs. Typically a point system is used to ensure equity and control costs.

Step 5. Design jobs to be rewarding

Jobs that have an appropriate level of challenge and variety, and are seen by both the employee and the organization as meaningful and significant, are more likely to result in feelings of intrinsic reward than those that are not.

Step 6. Recognize employee achievements

Share information

- Help employees understand how they can help by sharing information about the company’s goals, its progress, and its challenges.
- Ask employees for their ideas about a key organizational issue or decision. Provide them with the necessary information so that they can make an informed contribution.

Say thank you

- Say thank you to employees when they go above and beyond (in the hall, through a hand-written note, by email or voice mail).
- Publicly thank employees for their novel ideas and contributions (in departmental or company meetings, newsletters, bulletin boards).
- Provide an employee who has worked over-time for an extended period of time with paid time off or a gift certificate for dinner or a weekend away.

Celebrate success

- Hold departmental and company events to celebrate employee, team and organizational successes.
- Provide employees with awards for achievements or for displaying core organizational values.

References

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Hackman, J. R., & Oldham, G.R. (1976). Motivation through the design of work: Test of a theory. Organizational Behavior and Human Performance, 16, 250-279.

Long, R.J. (2002). Strategic compensation in Canada (2nd ed). Canada: Nelson Thomson Learning.

Schuster, J.R., & Zingheim, P.K. (1996). The new pay: Linking employee and organizational performance. San Francisco, CA: Jossey-Bass.

The following diagnostic tools may be helpful:

Turnover Calculator

Employer of Choice Assessment

You may find the following parts of the Destination Excellence program helpful:

Empowerment

Performance Management

Job Design

How Do I Start?

1. Determine your reward system goals. These might include:
 - To help achieve the organization's strategic goals
 - To be aligned with the organization's strategy and structure
 - To attract and retain a high quality workforce
 - To promote desired work behaviour
 - To be equitable, internally and externally
 - To be compliant with the law
 - To remain within the financial means of the organization
 - To achieve the goals in a cost-effective manner
2. Determine what your employees truly value. You can survey employees about the value of current rewards and proposed rewards. You can also form a committee including employees to recommend suitable rewards.
3. Decide which intrinsic and extrinsic rewards you already provide and whether they contribute to the achievement of your organization's goals.
4. Test and implement the rewards practices that will help your organization meet its strategic objectives.
5. Communicate, communicate, communicate. Unfortunately, employees often do not understand the available rewards or the total value of the rewards they are offered. If the link between pay and performance is unclear, it will not work as a motivator.

ADVANTAGES OF BEST PRACTICES

- More qualified job applicants
- Better trained and informed employees
- Better health and safety practices
- More engaged and productive employees
- Fewer line interruptions
- Fewer product quality problems
- Easier implementation of new technology
- Lower absenteeism and employee turnover
- Higher sales per employee
- Higher market value to book value