The Missing Link: Driving Business Results thru Pay for Performance

For Small and Mid-Sized Businesses

A SUCCESSFUL PAY-FOR-PERFORMANCE CULTURE CAN
LITERALLY TRANSFORM YOUR BUSINESS.

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More successful small and mid-sized companies are beginning to tie compensation directly to employee performance to drive incredible business results.

Originally believed only for sales professionals, pay-for-performance is proving to be effective at all levels and in all functions of an organization. Though gaining acceptance from both senior management and front line employees, most companies lack the know-how to make it a reality. This eGuide offers an easy-to-understand roadmap to apply pay-for-performance as a strategy within your company.

Written with input from leading HR professionals, this guide provides valuable, real-world insight into how to build a successful pay-for-performance culture that can literally transform your business. In addition to understanding how HR benefits from pay-for-performance, you'll learn:

• **What a well-structured pay-for-performance system can do your business**

• **How to ensure pay-for-performance will be successful in your business**

• **3 key steps to build a pay-for-performance culture in your company**

BUILDING A PAY-FOR-PERFORMANCE CULTURE IS CONSIDERED A TOP TOOL BY SENIOR EXECUTIVES FOR ACHIEVING BETTER FINANCIAL RESULTS.

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What a Well-Structured Pay-For-Performance System Can Do for Your Business

Building a pay-for-performance culture may seem like an abstract vision for some companies; however, it's considered a top tool by senior executives for achieving better financial results. And for good reason: a strong pay-for-performance culture has the ability to unlock employee performance potential, keep your "superstars" happy, and ultimately drive a healthier bottom line.

The key business benefits of pay-for-performance include:

Goal Alignment

Pay-for-performance is a key mechanism to align employees' goals with business objectives because it links rewards to performance which is most critical to your company. Communicating and tracking each employee's progress against company objectives is imperative and delivers a host of positive results:

• Employees are more productive and focused on achieving key company goals

• A shared responsibility between employees emerges by cascading goals with others in the company

• Managers can stay in touch with employees' progress throughout the year and offer immediate reinforcement or coaching to keep performance on track

Most employees become more engaged and motivated by understanding how their daily activities help drive overall business health; this unquestionably results in both individual and company-wide success.

ACCORDING TO GIGA INFORMATION GROUP, RETENTION CAN BE IMPROVED BY MERITOCRATIC MANAGEMENT – OR PAY-FOR-PERFORMANCE – BY UP TO 27%.

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Increased Motivation

Another overarching benefit to pay-for-performance is developing a culture in which employees are energized to perform at maximum levels. Jack Welch, former CEO of GE and a leading expert on driving performance, believed the ultimate goal of managing is not to get an employee to perform as expected, but to have them willingly go beyond the call of duty because they want to.

A pay-for-performance system is a key element in getting employees to excel at maximum (and beyond) levels. How? By combining clear direction, quality feedback and tangible rewards, workers also receive recognition—a key component to job satisfaction and employee dedication. This builds a more satisfying relationship where employees are inspired by knowing management truly values their efforts.

Improved Retention

It's no secret that the key to retaining the best and brightest is recognizing and compensating top performers. According to Giga Information Group, retention can be improved by meritocratic management — or pay-for-performance — by up to 27%.

In a well-planned pay-for-performance system, managers have easy access to all the information they need to reward individuals for actual performance. This allows them to track employee's progress against performance goals and reward efforts according to defined expectations. Employees are, in essence, empowered to be in control of their financial situation, which many HR experts site as a key to maintaining the tenure of top-performers. In addition, overcompensation of underperformers is avoided— a mistake that frequently leads to "superstar" workers leaving with complaints of unfair treatment.

Cost Savings

Finally, a pay-for-performance culture can help your company save money in a way you may not think of: avoiding overcompensation. Companies can waste literally thousands of dollars a year by rewarding individuals whose performance doesn't help achieve key business objectives. The ongoing accountability developed in a pay-for-performance culture helps avoid this pitfall.
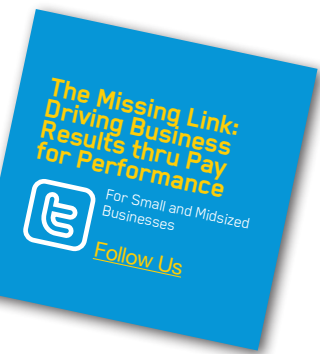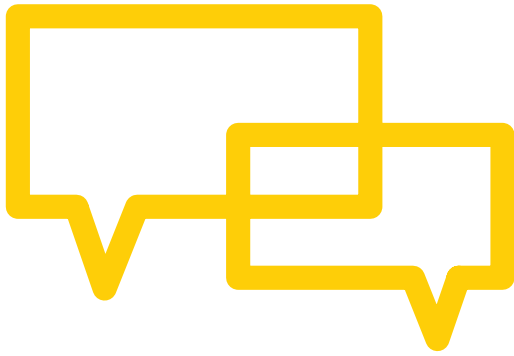
TO BE SUCCESSFUL, YOU HAVE TO TAILOR A PAY-FOR-PERFORMANCE SYSTEM THAT'S UNIQUE TO YOUR BUSINESS NEEDS AND HR PROCESSES.

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Ensuring Pay-For-Performance Will Be Successful in Your Business

It's important to realize that there is no one-size-fits-all approach to developing a pay-for-performance culture. To be successful, you have to "think custom" and tailor a system to your unique business needs and existing HR processes.

The HR professionals who contributed to this guide have said answers to the following questions provided invaluable feedback in setting expectations and shaping a meaningful pay-for-performance culture:

• Are the tasks that people are working on driving the business? How can you tell?

• Are your managers engaged with your employees throughout the year to make sure they execute their objectives?

• Are individuals executing against what is expected? Who is and who isn't executing?

• Are you objectively ensuring that bonuses, raises, and promotions are given to those high performing individuals that you can't afford to lose?

Another note on ensuring success: pay-for-performance is not a one-way street where management sets up a system and employees simply follow suit; there are key psychological and emotional realities that have to be in place. In fact, it's common for companies to ask the right questions and build the right system without thinking about the "human side" of payfor- performance. For a successful performance-driven culture to be adopted, it's important to gauge the attitude of your employees. In general, employees have to:

• Desire higher pay

• Have the skills and capabilities to improve performance

• Trust the company to administer the plan fairly, and pay if they improve performance

Think of this as employee "buyoff" into a pay-for-performance system — a factor regarded as mandatory by companies that have successfully implemented pay-for-performance.

THE KEY IS TO IMPLEMENT COMPENSATION POLICIES THAT ARE FAIR, CONSISTENTLY FOLLOWED, AND SUBJECT TO REVIEW AND OVERSIGHT.

Three Key Steps to Building a Successful Pay-For-Performance Culture

Pay-for-performance is regarded by many as an "art" that requires discipline and integration of three key areas of HR: compensation, goal alignment, and performance management.

Step 1: Compensation Planning

The first step to implementing a true pay-for-performance system is developing an overall compensation plan for the company. There are several approaches that can be used to create a compensation plan. Employees can be rewarded by salary, bonuses, stock options, 401k contributions, or through gifts (travel, luxury items).

Most successful companies have based their pay-for-performance compensation plan on a "structured incentive scenario." A structured compensation plan is one in which employees understand ahead of time the precise relationship between performance and the incentive reward. A survey of companies across industries reveals two common approaches:

- Annual bonuses and merit increases — Based on a typical review cycle with performance ratings linked to organizational goals
- Goal-driven incentive plans — These fall outside the annual review process and are tied to achievement of specific time-based goals

Regardless of what you choose to implement, the key is that the policies are fair, consistently followed, controlled, and subject to review and oversight.

LEADING INDUSTRY ANALYSTS ESTIMATE NEARLY 95%OF WORKERS ARE UNAWARE OF THEIR COMPANY'S TOP OBJECTIVES.

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Step 2: Goal Alignment

After the compensation strategy is determined, company leadership must establish organizational goals through a clear mission. Many organizations suffer from not having any method of communicating goals set by executive management to individual contributors. In fact, leading industry analysts estimate nearly 95% of workers are unaware of their company's top objectives.

The area of goal alignment has been one of the most significant advances for HR practices. Establishing a formal review process for creating relevant goals for each employee and mapping those back to corporate objectives is crucial for establishing a true pay-for-performance culture. When managers and employees see the goal plan and understand that both of their individual goals fit into the company's business objectives, then a pay-for-performance system begins to thrive and directly contribute to bottom-line results. For the "superstars" in your organization, this means making sure goals are aligned with activity within their control— not solely on functions they cannot directly influence.

Keep in mind that your success in aligning employee and company goals requires an open dialogue with upper management. This is the only way to ensure business strategy is woven into all HR efforts
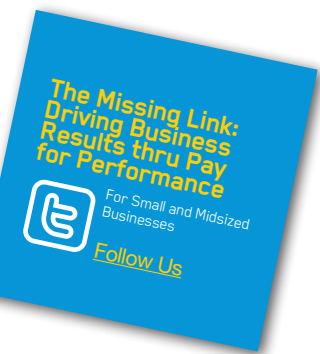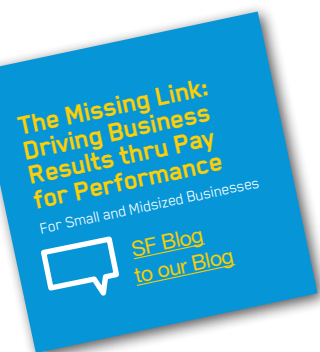
LIKE ANY STRATEGIC INITIATIVE, PAY-FOR-PERFORMANCE REQUIRES PLANNING, DISCIPLINE, AND FLEXIBILITY.

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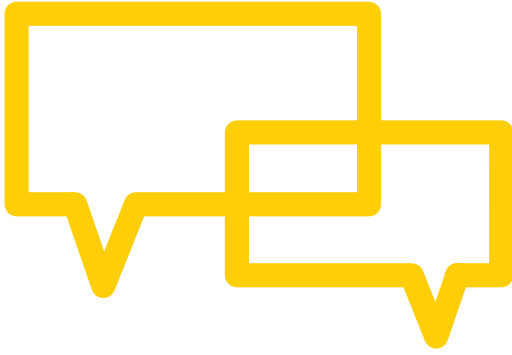
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Step 3: Performance Management

The final step in developing a pay-for-performance system is contingent on the ability to continuously measure and manage employee performance in a quantifiable way. Many companies fail to take this last step and end up with an arbitrary or subjective review process.

Performance reviews are critical to maintain a level of performance management that will support a thriving pay-for-performance culture. However, reviews have to be regarded as more than just an "annual event." This can be achieved by formalizing a process of performance reviews on a monthly, quarterly, or project-by-project basis. This will inevitably create a better dialogue between employees and managers.

Too often performance reviews are seen as a tedious requirement, but ironically, they are the primary basis for compensation and overall career-building. By evaluating individual goals that tie to higherlevel organizational goals, performance reviews are a pillar of performance management.

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Conclusion

By integrating these elements into your HR processes, your company can establish a true pay-for-performance culture. The result is a more energized and engaged workforce that clearly understands how their contributions affect overall company success, and know they're being compensated fairly for their efforts. The overall business results can be enormous: retention of top talent, higher levels of performance throughout your company, and greater revenue and profits.

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The HR Insider Series

This ongoing set of guides is designed to provide HR professionals in small to mid-sized businesses with insights and solutions that can be applied in everyday efforts. Contributing authors include HR experts, as well as leading companies that have improved business results by using the latest HR technologies.

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