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The Business Impact of Rewards

Earlier this year (Volume 15, Edition 1) I wrote an article for this newsletter about segmentation of your rewards strategy. I didn't realize it at the time, but that was Part I. I focused on base pay, particularly using a merit matrix, and having a different base pay policy for key groups or employee segments. This is Part II, with more detail and examples in other areas.

Returning to the idea of segmentation, let's explore some additional alternatives to just base pay. These alternatives may be possible, assuming your company has not embraced and engrained paternalistic tendencies, and can overcome the "good-feelings" that an egalitarian (i.e., belief that all should enjoy equal) program design can bring.

It should not be difficult to understand that companies already segment their workforce different ways for different reasons. Exempt and nonexempt; production and professional; IC and manager; sales and engineering; etc. But when considering the impact of rewards on the business – and on employee segments – it can result in specific designs that will produce overall better results for both. So it should benefit us to start to think about a more customized approach to rewards. For purposes of further thought, let's work on three key segments of roles and job families:

Basic: Employees in supporting roles that might be considered core to the organization, providing services for which they have specific skills or training. People in basic jobs have a central and fundamental importance, but their skills are readily available in the marketplace.

Expert: These employees have a high degree of skill and competency and may be considered experts that help the organization achieve their

business strategy (not to be confused with a highly skilled employee in a Basic role).

Crucial: Employees that are the most vital and of the greatest significance in determining successful business outcomes.

Now begin to think about principles that enter into rewards designs, such as performance orientation (long or short), competitiveness, and to add a little OD spin, career development and engagement. And remember, we're already assuming we're able to move away from the paternalistic and egalitarian approaches. What might be some key segmentation decisions to align with these roles?

Basic: Traditional base pay grades and ranges, median competitive positioning. Modest bonus on company results.

Expert: Broader view of career levels and advancement, aggressive promotions funding to support career development programs. Median to 3rd quartile base and target cash policy. Limited long-term incentives.

Crucial: Target and upside total cash focus (greater leverage to produce 90th percentile + opportunity for annual compensation). Long term, performance-based equity, cash or combination. Hi-impact/exposure, leadership / management training opportunities.

So, it isn't hard to imagine that an approach like this could turn your organization on its head, and create some pretty significant change and disruption. Could also be the beginning of understanding the ROI of monies spent and other program designs that could affect productivity and engagement. And whenever considering changes to the status quo, remember one of my favorite Machiavellian sayings:

“There is nothing more difficult to take in hand, more perilous to conduct, than to take the lead in the introduction of a new order of things, because the innovation has for enemies all those who have done well under the old conditions and lukewarm defenders in those who may do well under the new.”

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VP Total Rewards

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