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Subject: It's settled – Rewards & Recognition drives engagement

A few months ago, I quoted a Willis Towers Watson report that said base pay was most effective in attracting and retaining talented people, in spite of the long standing belief that remuneration had no positive influence on employee engagement – it was merely a "hygiene" factor. In other words, the HR department was expected to just minimise remuneration infections.

Now, there's more credible evidence that Rewards & Recognition is firmly a major driver of employee engagement.

My former colleagues at Hewitt Associates (now Aon Hewitt) have been at the forefront of employee engagement studies for over 20 years. In their 2018 report on Trends in Global Employee Engagement, they found that the top five engagement drivers are:

1. Rewards & Recognition
2. Senior Leadership
3. Career Opportunities
4. Employee Value Proposition (EVP)
5. Enabling Infrastructure

This is global ranking, but even by region, Rewards & Recognition is always in the top three.

In my experience, competitive base pay has always been a major enabler in attracting talented people. (Of course, there are some notable exceptions where the employer's reputation and EVP trumps all recruiting enablers). The recent AH report also supports my belief that the enduring engagement of employees requires "recognition for contributions" – both financial and non-financial. Therefore, every employer should be very clear about its business objectives, its expectations, how it measures the contribution of employees, and how recognition is aligned to results.

While there are several Rewards & Recognition elements to consider, financial incentives require the most open quantitative process, and I have always said that success with incentives will only be achieved with a holistic and premeditated approach that involves:

- Clearly articulated business strategies and objectives;
- Unequivocal performance expectations that illuminate the competitive advantages of the business;
- Ongoing business commitment and tangible organisational resources;
- Active and open and continuous support from up-line management;
- Harmony with all performance management processes and related HR initiatives;
- Competitive remuneration practices based on market/ industry benchmarking;
- Employee control and minimal interference from external forces.

Under these conditions, successful incentive plans commonly share the following features:

- A tailored plan for each substantive employee group;
- Employee participation in design;
- Impartial measures – either absolute or relative – that are meaningful to employees;
- Strategic, zero-based performance benchmarking (<u>not</u> dominated by prior-year results);
- Threshold performance that deserves a minor yet meaningful incentive;
- Stretch performance that can only be achieved in the very best of all circumstances that are in the employees' control;
- For Stretch performance, fund an "industry best" incentive.

Unfortunately, too many employers take easy shortcuts with incentive designs. Managers often impose copies of incentive plans that they've used before, regardless of different business strategies and their enabling organisation cultures. The result is usually poor business alignment, meaningless (or absent) Rewards & Recognition, and a lost opportunity to improve employee engagement.

Simon Hare

HaRe Group