[MASTERCLASS]

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Rethinking rewards

There is a common perception that money is the prime motivator for employees, but the reality is somewhat different. Photograph: Thinkstock

A culture of financial rewards had companies doling out bonuses at the drop of a hat – the time has come to rethink our methods of rewarding staff

HIGH PAY RATES are one of the crippling legacies of Ireland's economic boom and with labour costs accounting for up to 75 per cent of most companies' costs, employers are faced with cutting pay and benefits to stay in business. Doing so without causing major disruption to morale and productivity is the big challenge.

Redundancy, pay cuts and removing fringe benefits are all emotive issues with the potential to create friction. Employers who mishandle the process run the risk of demotivating staff at a time when morale is at an all-time low and companies need stability and focus.

"Opening up good channels of communication is crucial. Otherwise there is speculation, suspicions build and people end up thinking things are worse than they are," says Velma Roberts, senior manager at PricewaterhouseCoopers. "By talking to employees, employers can also get a sense of what they really value. For example, something like a corporate gym membership might look good on paper but it's a cost – and are people actually using it?"

Nobody likes making or taking cuts but employees are fast becoming resigned to it. The employment market has experienced a massive reality check in the last three years and for the majority if it's a choice between a job or no job there's no contest.

"What's remarkable about the adjustment is the level of acceptance," says Michael O'Leary, chief executive of the HRM recruitment group. "What's happened has been such a watershed that there is little or no resistance. Basic salaries are static or have dropped back to where they were three or more years ago.

"There is no doubt that certain sectors were substantially overpaid during the Celtic Tiger. Executive compensation ran wild and people were changing jobs for more and more money. As a result the cost of change for companies became very significant. What we are seeing now is a correction. Salaries are coming back into line and those who lost high paying jobs are taking new positions for a lot less."

One aspect of remuneration undergoing significant change is bonus payments. "During the boom, figures were pulled out of the air and paid almost regardless of performance. Now bonuses are tightly linked to the delivery of very measurable targets or outcomes," says O'Leary. "We are also seeing a shift in emphasis away from the individual towards a more team-based approach. For example companies are not paying bonuses unless specific organisational goals are achieved, regardless of individual performance."

The other side of this coin is more of a focus on recognising the individuals within organisations who are contributing most. "Companies are identifying who their key performers are and are rewarding them specifically not only financially but also with career development opportunities," says Velma Roberts. "Companies are looking at how bonuses are calculated and what they contribute to the business in terms of value for money and driving corporate strategy. They are also reviewing whether bonuses are rewarding what they see as the right kind of behaviour within their organisations."

Up to 2008 Ireland had money, an abundance of jobs and a shortage of labour. Unsurprisingly employers desperate for staff paid what they had to. But getting them was only the beginning. They also had to pay to keep them. "Essentially we lost the line of sight when it came to compensation and benefits," says Pat Gurren, managing director of Gurren Compensation and former head of global compensation with Intel.

Being labour savvy

- Review company structures. Are all the positions necessary?
- Cut overtime and cut/reduce more expensive shifts.
- Offer reduced working hours, unpaid/extended leave.
- Make sure you know the average going rate for the skill sets you need. Are you paying more or less than you need to? Pay too much and people get too comfortable. Pay too little and trained staff will defect for more money.
- If people are paid allowances for travel or subsistence look at how these can be reduced. For example, allowing people work from home or setting up conference call facilities.
- Look at sharing costs such as healthcare with employees.
- If you're paying for "perks" such as subsidised food or gym membership, establish whether employees really value them.
- Boost morale with no-cost measures such as positive emails.
- If you need to make tough decisions take time to explain why these decisions are necessary, address employees' questions/concerns and get their buy in.
- Make decisions for the right reasons ie ones with a sound commercial basis. People see through decisions with ulterior motives.
- Keep pay structures simple. Try to cut out allowances and other variable costs such as bonuses.
- Where bonuses are paid, link them to the achievement of very specific objectives.
- Make the relationship between pay and performance crystal clear.
- Design incentives to support revenue targets or other business objectives.
- Identify the employees who are central to the success of your business and ensure they are encouraged to stay – but think before offering equity as a means of retaining staff.

"The problem with this is that these terms then become part of a company's remuneration structure and are very hard to take away. Many companies find their hands are legally tied when it comes to reducing pay so I feel there is more talk than action in this respect especially in bigger companies. It is different for SMEs which tend to be more flexible. Employees are closer to the front line and most are prepared to be reasonable.

"In this environment companies need to aggressively manage basic pay costs," Gurren adds. "They need to look at the total cost of compensation and see where they can get the most leverage. First to go should be the 'low-hanging fruit'. For example if overtime is a regular feature of the business it should be scaled right back or removed completely. Healthcare inflation is running around 20 per cent so if a company is paying for healthcare then it may be possible to move to burden sharing where the employer pays 80 per cent and the employee 20 per cent."

Gurren's advice to any company hiring new staff is to work out the most cost-effective set of terms and conditions possible, taking the full remuneration package into account. For those companies which have pared back and are still struggling Gurren's recommendation is stark.

"There's a limit to how much cost you can take out and there are only so many people you can carry. If you have excess head count, bite the bullet sooner rather than later."

While there is a common perception that money is the prime motivator for employees, the reality is somewhat different according to Roberts. "Respect and recognition are hugely important for people," she says.

"If a manager sends a general email praising someone for a job well done it gives a real boost and reinforces an employee's status and image within a company. This costs nothing in financial terms. Making it possible for people to build their CVs through participating in a project that requires them to step up a level is also motivating, while in this climate people are also prepared to take the recognition that goes with a promotion without the salary increase."

When money is tight there needs to be a greater emphasis on the non-pay elements of work, says Gurren. "In good times it's easy to fix problems by throwing money at them," he says. "In a recession more attention needs to be paid to issues such as better communication, creating a better working environment and job development. There needs to be more information sharing and managers need to get out of their offices and talk to people."

Case study: Reducing company costs

Rather than cutting staff pay, companies can look at different ways of reducing costs while simultaneously increasing productivity and creating a positive working environment

FERGUS BARRY spent 17 years in human resource management in the utilities industry before becoming involved in consultancy, teaching and writing. He is the co-author of *Performance Management: A Developmental Approach* and his book, *Redundancy: A Developmental Opportunity for You* was published in 2009. Barry directs the diploma in strategic human resource management at the Irish Management Institute and also teaches the strategic human resource management modules on the Trinity MBA and the IMI/Trinity MSc.

Barry says organisations reviewing costs should always look in detail at structure. Is the company the right size? Are there surplus positions? Are there roles that could be changed or redefined?

"In nearly every situation there are opportunities around structure," he says. "There is always some fat in the system that could be trimmed back. For example, putting people on a three- or four-day week usually results in higher productivity. Shortening the working we ek may not seem desirable but it's better than losing more jobs while you're waiting for the market to recover."

Barry says companies need to benchmark their wage rates against others in their sector to establish if they're leading or lagging the market. There is good anecdotal evidence to support the view that a company can pay around 10 per cent less than the market average without the risk of losing too many people.

"Hard times drive hard decisions but there is a view that pay cuts should be the last option," he adds. "There are usually other elements in the mix such as allowances and bonuses and making the cuts there rather than in base pay is usually more acceptable. Allowances are often a black hole of waste and people don't appreciate them. Either way it's critical to explain in detail why the cuts have to be made and to point out how this will help secure the future growth of the business and protect as may jobs as possible."

Barry advises companies to leave a breathing space between cuts and introducing new performance targets. Employees need time to buy into changes, to be sure what their role and objectives are in a trimmed down operation and to accept that expectations have changed and that their performance is going to be measured more aggressively.

"Performance becomes key in a recession and has to be consistently measured," he says. "Individual performance should be measured monthly and the delivery of company objectives and meeting targets measured quarterly. Success can be rewarded with something like a bonus of 10 per cent of pay at the end of the quarter. This gives a specific focus. In a recession every employee has a part to play in the delivery process."

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