

# Finding the Right Mix

## Determining the right mix of compensation, benefits, training, and rewards & recognition

**M**anagers responsible for attracting, retaining and motivating employees must identify the right mix of compensation, benefits, training, rewards and recognition to optimize the organization's efforts. The mix of such tools impacts employee behavior and beliefs, and consequently their output. Much like a chef who needs to use the right ingredients to bring their well-crafted recipes to life, managers must understand the crucial importance of each "ingredient." Too much or too little of any one element can be detrimental to the company's attraction, retention and motivation goals.

The inevitable question, therefore, relates to the "how" of the matter. How do managers determine the right mix of these elements for their respective businesses?

The immediate answer is...it depends. Years ago, the mix was essentially a simple formula: start with six parts compensation, then add in two parts benefits (an ingredient started after World War II ended, and was used by companies to compete for returning soldiers), followed by one part recognition, and one part incentive. An employer acted in almost a parental mode, while the employee "did as he was told." Today's workers have minds of their own. They are intelligent, diverse, informed, internet savvy and connected. The formula is dynamic and depends on what the organization is trying to accomplish and the makeup of the people the organization is trying to influence.

Generally speaking, however, all of the elements play an important role in the mix.

This paper will explore how each of the elements referenced above—compensation, benefits, training and rewards and recognition—play a part in enhancing a company's total rewards strategy and policies. Moreover, it will provide guidance on how to best determine which elements will be of greatest value to your own corporation's goals.

### Understanding the Corporate Landscape

Significant progress has been made in recent years in terms of how managers can better understand the environment in which they operate, and thereby better interpret the most powerfully motivating strategies for their organizations.

For example, a recent survey<sup>1</sup> conducted by the Forum for People Performance Management and Measurement shares details on the most frequently used employee motivational tactics used in a rewards and recognition context. Among the many compelling findings:

- Non-cash motivators are viewed as superior to cash for "less tangible, morale-improving outcomes such as creating positive internal 'buzz' and improving teamwork." In fact, non-cash programs are viewed as more effective for 9 of the 10 organizational objectives that were studied. Spot cash bonuses are often "forgotten in the blink of an eye."
- Cash, conversely, is typically more effective when short-term sales gain is the primary objective.

■ Employee surveys are the most common of the measurement tools used to evaluate the impact of rewards and recognition programs. The key point here is that measurement is critical to ensuring your organization is succeeding in its motivation efforts.

Other researchers echo these findings. The authors of the book "Creating a Total Rewards Strategy" studied the eight chief causes of employee turnover.<sup>2</sup> The top seven of these involved the lack of consideration in such areas as learning new skills, coaching and feedback, and satisfying work. Actual compensation ranked eighth. In evaluating these outcomes further, the authors determined that non-cash rewards are the only real way to differentiate your employment offerings. Cash will always be a commodity; but it is the intangibles that will distinguish your company's mix.

### Changes in the Corporate Landscape

At the same time we're gaining a better understanding of the relative strengths of individual motivation tools, and the need to understand shifts in the environment in which those tools are being applied. We have clearly evolved from the days—not long ago—of "one size fits all" strategies.

For example, there is a fairly dramatic shift occurring in the workplace that can be attributed in large part to generational composition. The younger generations are adding a new set of motivators to the list, including training and development, the chance to be mentored, charitable involvement, and a

### Inside This White Paper

- Understanding the Corporate Landscape
- Changes in the Corporate Landscape
- The Attract, Retain and Motivate Dynamic
- Determining the Right Mix for Your Corporate Landscape
- Rewards and Recognition
- Conclusion: The Right Mix for Your Total Rewards Strategy

company's willingness to be flexible in how they do their job.

Employee age, therefore, is one emerging factor that should play a significant role in assessing what's most likely to influence behaviors and beliefs: younger employees have different motivational triggers than their older predecessors. In fact, one of the great ironies is that so much of the "mix" in today's companies still reflects the biases and preferences of a generation moving toward retirement.

With ever-changing world economies, there has been a dramatic shift in the way companies recruit people, resulting in battles for key talent versus a simple "fight for bodies." Companies are also finding that new concerns are on the minds of today's employees. Some of these concerns revolve around the lingering fear of terrorism and crime, resulting in a higher value being placed on "rewards" such as expanded security, employee assistance programs and flexibility in time off during personal crisis and/or emergencies.

### The Attract, Retain and Motivate Dynamic

**Recruitment:** Today, increasing numbers of organizations face shortages of skilled labor. This problem will grow only more acute as demographic changes reduce the number of young people entering the work force in the next few years. While the labor shortage may be lessened by the possibility that baby boomers will delay their retirement, many of today's high technology jobs rely on younger workers with whom technology is second nature. As noted above, these younger workers tend to look at more than just money when evaluating the desirability of a particular job. Your organization's rewards and recognition strategy can serve not only as a motivation and retention tool, but as a means of recruiting employees seeking a work environment that supports their emotional and lifestyle needs. As a result, many cutting-edge employers tout their rewards and recognition strategies in their recruitment efforts.

Generally speaking, rewards and recognition strategies get the most mileage in recruitment efforts when the jobs in question have some sort of defined career path, or target a younger workforce.

Short-term, transient workers tend to have less interest in how you reward or recognize them over time compared to employees who hope to be with your

organization for the long haul. Younger workers tend to value lifestyle issues and support from their management, almost as much as they do compensation. They will be intrigued if you have a rewards and recognition system that honors performance and longevity with the organization.

Young employees are pragmatic and see a balance in life and work as critical to their existence. They seek the finer materials in life, but to be shared with their contemporaries. Self gratification is a gateway to shared gratification. Compensation and benefits are a means of expressing a lifestyle match, while, recognition and rewards are a means of expressing a work style match.

**Retention and Engagement:** Research on motivation indicates that rewards and recognition address several of the critical psychological factors related to motivation. According to the study "Rewards, Incentives and Workforce Motivation" conducted by the International Society of Performance Improvement, employees generally respond positively to the following workplace factors addressed by rewards and recognition:

- **Support.** Do your employees feel that your organization values their work? Do they feel that their actions will be noticed and that management cares about their accomplishments? Properly structured rewards and recognition systems specifically convey organization support for employee initiative.

- **Task value.** Employees often will work more productively when they understand that the labor they perform has a value to the organization. This is often more difficult to convey when more lower-level jobs are involved. A program recognizing performance of employees at all level often makes work feel more meaningful to them.

- **Capability.** Most companies understand that employees will work more effectively if they feel able to do a task. Rewards and recognition programs often work in conjunction with training by rewarding people for completing training or demonstrating their knowledge. This helps to enhance the learning process and reinforce the value of knowledge within the organization.

- **Communication.** People work more productively when they have a clear sense of their organization's mission and how their function relates to the overall business objectives. Rewards and recognition programs help communicate the actions valued by the organization, and increase the chances that people will perform those actions that have an impact on achieving

your organization's goals.

### Determining the Right Mix for Your Corporate Landscape

Once you've gotten a fix on the tools, environment and demographics in your own organization, you can determine the right mix for your own organizational landscape.

Following are a review of the most common tools, and considerations that should influence the degree to which you emphasize each one at each stage of the *attract, retain, motivate* dynamic.

**Compensation:** For all of the talk about non-cash motivation tools, it would be all too easy to dismiss the perceived importance of compensation.

But, remember, the key is to consider a total rewards system that influences at every stage of employee interaction. Compensation has historically played, and continues to play, a critical role in the acquisition of talent. Therefore, an appropriate compensation structure is essential to secure the employee talent you want. Compensation and benefits are used to satisfy the basic needs for sufficiency and security<sup>3</sup>. Although compensation and benefits are considered entitlements, they are the basis for the employee experience.

### Maximizing Compensation's role in the mix:

- Is your compensation competitive, and enabling you to secure the best talent?

- Do you regularly audit yourself against similar organizations in your industry?

- Do you compensate through straight salary or earned commission, or a combination of the two? This will greatly influence the personality and attributes of the people you attract to your company.

- Do you provide performance based compensation (bonuses)? These are used to help sustain employment and share company success.

**Benefits:** Benefits create a means by which companies express the value of an employee to the company. Benefits represent an investment in human assets. Healthcare, wellness, personal care, day care and gain sharing are but a few of the areas devoted to the "holistic" employee. Such investments are meant to be "golden handcuffs" that convey the personality and commitment of a company to the value it places on its people. Your organization needs to determine its own belief, and position your benefits programs accordingly.

Strong, fixed benefits that are evergreen will assist in your employee acquisition efforts; variable benefits that can shift over the course of employment based on performance are more like rewards that will support retention and motivation.

**Maximizing Benefits' role in the mix:**

■ Do you conduct periodic “reality checks” to determine what kinds of benefits are most meaningful to your current or desired employee population? The benefits of greatest value five years ago might have already lost much of their luster.

**Training:** The book “The Four Elements of Successful Management” wisely points out that, “We equip employees in the business world through training and experience,” and that it’s training which truly enables employees to “translate knowledge into action.” The study conducted by the Forum for People Performance Management and Measurement found that slightly fewer than half of organizations have training programs in place. This will need to increase as a new generation replaces an older one. A changing world requires continuous improvement and refinement of skills to adapt to such a fast paced environment. Workers know this intuitively and will demand continuous training and education. Since the lack of opportunity to learn new skills is a chief reason employees resign, the retention of younger employees will require strong training options.

**Maximizing Training's role in the mix:**

■ What does your employee mix look like now? While generalizations are dangerous, if your employee population is getting younger, there is a strong chance that training will help you keep them longer, and motivate them as well.

■ Do you encourage training across the board? Training is a positive term for young, highly motivated individuals who are looking to advance their careers, but it can be demeaning to experienced managers.

■ How do you communicate about training? Based on what we’ve described above, semantics are important. Once you’ve decided what training to offer, make sure you’re calling it the right thing based on your employee demographics, and promoting it to the right people within your company.

**Rewards & Recognition:** The latest research has made a very strong case for non-cash rewards and recognition pro-

grams, and this paper has already illustrated why that’s so. Rewards and recognition are used to reinforce specific behaviors that are both measurable and subjective. This is a skill that should be taught to all managers and is vital to employee engagement. As the Forum for People Performance Management and Measurement research indicates, employee recognition is the most-common motivation tactic. The key is to determine the right mix of rewards and recognition with the other compensation and benefits strategies at your company.

**Maximizing Rewards and Recognition's role in the mix:**

■ Have you evaluated which rewards and recognition are most valued by your employees? Researchers have found in that fewer than half of U.S. companies have undertaken systematic review of their reward plans. The new generation of employees is less impacted with lapel pins or watches and more swayed by tangible rewards.

■ Is your organization going through, or about to embark on, significant change such as new products, acquisition, merger or layoffs? If so, you should consider programs designed to influence the specific new behavior desired. More initiatives typically mean you’ll need to offer more and varied rewards options and recognition events.

■ Do you have solid communications strategies and tools in place to complement and reinforce your rewards and recognition programs? Communications is the packaging that keeps people informed, motivated and feeling part of something bigger.

■ Do you provide both formal and informal recognition? Not all rewards and recognition needs to be formal and planned...

Informal recognition, such as spontaneous recognition and rewards or bringing in lunch or doughnuts, will help build a culture of recognition.

■ When employees leave your organization, do you ask them why they’re leaving? Their answers can shed great light on what’s working, or not working, in your current rewards and recognition program.

**Conclusion: The Right Mix for Your Total Rewards Strategy**

Clearly, all of the components discussed here—compensation, benefits, training, and rewards and recognition—play a role in helping your organization find its own “right mix.” At the end of the day, your organization is more likely to craft the right mix by:

■ Differentiating between tools designed to attract, versus those that are designed to retain and motivate employees.

■ Understanding the respective strengths of cash compensation and non-cash rewards and recognition systems.

■ Regularly evaluating and re-evaluating what your organization is trying to accomplish, and which tools are most appropriate.

■ Remembering that demographics matter—as the nature of your workforce changes, so should the nature of your mix.

So what is the right mix? What is the right formula? It is not linear and it is not simple addition, adding up the ten parts to equal the total, as in the formula of old.

This is a new age formula with a different base—namely more parts. It may start out as six parts compensation, two parts benefits, one part training, one part recognition and one part incentive—a base of eleven parts. And indeed, you cannot just add up the parts. Parts can compound and parts can have multipliers. In other words, each part can be of greater value based on the company, a division/department or even an individual person. The mix can be different for each employee. The key is to determine the mix on a one-to-one basis.

The task seems daunting—why can’t it be a simple formula? It isn’t the fault of a company or a country. It is the collective development of society and business. An evolving society presses on, continually growing and inventing. Workers’ knowledge must keep pace. Skill development must be compensated. Performance levels are “bonused,” and sustaining efforts are rewarded. It is a cycle we invented and in which we are invested.

The recipe is simple, but mixing in the right amount of each ingredient remains the challenge. Each organization must take the ingredients and weight them according to its own taste. Then it must determine the best way to adjust the organization’s “recipe” to match the individual tastes of its diverse workforce.

**Footnotes**

<sup>1</sup>The Forum for People Performance Management and Measurement: “Match Employee Awards to Specific Organizational Objectives for Optimal Success,” [www.performanceforum.org](http://www.performanceforum.org).

<sup>2</sup>Todd M. Manas and Michael Dennis Graham, “Creating a Total Rewards Strategy: A Toolkit for Designing Business-Based Plans,” American Management Association, 2002.

<sup>3</sup>Abraham Maslow, “A Theory of Human Motivation,” originally published in 1943.